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The winds of change

The *Ørsted* judgment raises important questions about capital allowances relief for predevelopment expenditure

VAT grouping

Maximising savings while navigating the hidden risks and practical challenges

Interview with Leon Ward

New TaxAid Chief Executive on how the profession can help vulnerable taxpayers

A clearer view of income

New third-party reporting requirements will provide more timely information

HELEN WHITEMAN
JANE ASHTON



Welcome
Making our voices heard

The Chancellor of the Exchequer, John Healey, gave his first Budget statement at the end of October. While there were no headline-grabbing announcements, the Budget contained a raft of smaller tax changes. Many appear relatively modest, but collectively they add further complexity to the tax system.

Our work on the Budget starts much earlier than October, and we are very proud of the part that we continue to play in helping Parliament scrutinise tax policy. CIOT, ATT and CIOT's Low Incomes Tax Reform Group (LITRG) have all provided written and oral evidence to the House of Lords Finance Bill Sub-committee, with ATT and LITRG each giving oral evidence once and CIOT appearing twice. These sessions have covered topics as diverse as mandatory payrolling of benefits and Customer Correction Notices.

It is always encouraging to see our expertise being recognised, and these appearances allow us to explain how tax policy works in the real world for taxpayers, businesses and advisers. None of this happens without a great deal of work behind the scenes, so we would like to thank everyone who has helped to shape our evidence.

The Budget allows us to share our expertise more widely, and this year our teams have been particularly busy. Alongside our detailed technical work, we have also been active in the media, publishing articles and press releases, speaking on the radio and providing timely reactions as announcements emerged. It has been a real team effort, ensuring that our voices and members' experiences are part of the wider tax debate.

Our technical teams have been busy analysing the Budget announcements and assessing what they will mean for members, their clients and taxpayers. There is plenty to keep them occupied, such as the particularly short consultation period for the proposed new Founders' Relief, which closed on 30 November, little more than a month after it was launched. While we always welcome the opportunity to engage with government on the design and implementation of new tax policy, meaningful consultation takes time, particularly where proposals are complex and their practical consequences need careful consideration. Our teams have worked hard to ensure that practical considerations and the views of those affected are reflected in our responses.

Elsewhere, the examination season comes to an end with the Advanced Diploma in International Tax (ADIT) exams from 15 to 17 December. In an ever more connected world, tax professionals need to navigate the challenges and opportunities of today's business environment. ADIT is an advanced-level qualification in cross-border tax, designed by world-leading experts to provide a robust foundation in international tax. We would like to wish all the students taking these exams the very best of luck.

Tax return season is now starting to pick up pace for those working in private client departments across the country. This year, many firms will also be preparing for the additional complexities of Making Tax Digital submissions. We wish everyone tackling client returns and submissions all the very best over the coming weeks. May your calculations run smoothly, your submissions go to plan and your coffee cups never run dry!

Finally, as we approach the end of another busy year, we would like to thank everyone who has helped make 2026 such a success, whether through contributing to our technical work, volunteering in schools and at careers fairs, or supporting fellow members and future tax professionals through our mentoring programme. Your time, expertise and enthusiasm make an enormous contribution to our organisations, and we are very grateful for everything you do.

We wish you a lovely festive season and a happy, healthy and successful New Year.

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tinyurl.com/8jzj8efw

Private equity investment
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tinyurl.com/37753bhn



PAUL APLIN
PRESIDENT

Navigating tax complexity

> For many people, the key issue is not tax policy design, but tax administration.

The two words that have come up most frequently in my conversations over the last six months will not surprise you: complexity and simplification.

When I began training back in 1980, at an independent general practice in Somerset, each of the partners had their own well-thumbed copy of Butterworths Yellow. Even as general practitioners, they knew their way around the core tax legislation. Forty-six years on, Tolley's (as it now is) Yellow Tax Handbook runs to five volumes (plus two Orange Handbooks). The volume of legislation and guidance has grown enormously, as has its complexity.

At the CTA Address in June, former Treasury minister David (now Sir David) Gauke gave some insight into the political aspects of tax policy design. He spoke about the lack of clarity in the language of tax legislation, the length of the tax code, structural complexity and the frequency of change. He ended with a point that resonated strongly with me: that for many people, the key issue is not tax policy design, but tax administration. It is an important distinction.

It would be great to see significant simplification of tax law, but I am under no illusions about the extent to which that is likely to happen. It would take a very brave Chancellor to say, 'I won't change anything.' It would take an even braver one to say, 'I am going to take significant amounts of tax legislation off the statute book.' That does not, however, mean that we should stop making recommendations for simplification of the law and practice of taxation: indeed, our Royal Charter explicitly requires us to. Most taxpayers will never look at the legislation but, somehow, they have to understand enough to comply with their obligations.

Navigability is the key and a topic close to the heart of one of our panellists at the CTA Address, Dame Teresa Graham, who is chair of HMRC's Administrative Burdens Advisory Board (ABAB). ABAB, on which I have served for a number of years, acts as a critical friend to HMRC on issues relating to the regulation and administration of tax for small businesses. The board looks at the interface between taxpayers and the tax system, at points where navigation is difficult and at how it could be made easier.

Technology is a key enabler. Over 96% of personal tax returns are now filed electronically using software that processes the numbers and does the calculations. But compliance isn't just about processing the numbers; it is about knowing what you have to do and when. In that context, generative AI presents us with both potential and risk. AI products designed for tax professionals facilitate navigation of tax legislation, guidance and case law. We, as professionals, have the knowledge and experience to know when to trust and when to challenge AI output (and there is topical PCRT guidance on this).

Taxpayers, however, are in a different position. They will not have the same knowledge and experience and are therefore less likely to be able to distinguish between fact and hallucination. They will not, as tax professionals do instinctively, seek the source of an AI-generated answer in order to assess its likely accuracy. For CIOT, as an institute with public interest and education obligations under our Royal Charter, this presents a particular challenge. Our Low Incomes Tax Reform Group (LITRG) website is a great source of information for unrepresented taxpayers, but generative AI has changed the way in which many people seek information. Instead of reading expertly written text, they are increasingly asking AI tools questions in plain language. I recently joined a LITRG technical team meeting and found the conversation around this point – and how LITRG is looking to address it – fascinating.

Some of the structural issues that increase complexity and get in the way of simplification were discussed at a meeting of our Technical Policy and Oversight Committee over the summer. Complexity also featured at a roundtable we hosted on the effectiveness of the tax system in driving entrepreneurship, and I was able to use some of the examples from that discussion at panel events at the Labour and Conservative Party conferences.

The title of Sir David's CTA Address was 'Why tax simplification isn't that simple'. It most certainly isn't, but through panel events and roundtables, and through the work of our Technical Policy and Oversight Committee and our Low Incomes Tax Reform Group, we are actively trying to address the issue of complexity and to help taxpayers navigate the system safely.

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ELE THEOCHARI
DEPUTY PRESIDENT



Our Christmas wish list

> Even the most carefully constructed fiscal plans have a habit of encountering events that nobody anticipated.

Hello and welcome to the Deputy President's page for December. By the time you read this, the dust should have settled on the Chancellor's Budget of 28 October.

Budgets have a habit of generating speculation long before the Chancellor stands at the despatch box, and this year was no exception. By Budget day, taxpayers, businesses and advisers had been treated to months of rumours about possible tax rises, reforms and changes.

For tax advisers, the Budget is only the beginning. The real work starts as we work through the detail, identify who is affected and, perhaps most importantly, what the announcements actually mean for our clients. That is why our profession matters so much, and why I value the fantastic work our technical team undertakes in supporting members and demystifying announcements. Tax policy might be announced in a speech sometimes lasting a couple of hours, but its consequences can last for years.

Take William Gladstone's famous 1853 Budget. His speech lasted four hours and 45 minutes and included proposals to extend income tax for seven years, while simultaneously reducing or abolishing hundreds of customs duties. He intended to simplify the tax system, with income tax eventually disappearing altogether. Unfortunately for Gladstone, and perhaps fortunately for future Chancellors, the outbreak of the Crimean War changed the financial picture rather dramatically and income tax has never 'disappeared'.

It is a useful reminder that even the most carefully constructed fiscal plans can encounter unforeseen events. And perhaps that is particularly relevant today. Governments may set out their intentions, but economic conditions, international events, public finances and political priorities can all intervene. For us as tax advisers, that means being prepared not just for what is announced, but for what happens next.

As well as being ATT's Deputy President, I am also a partner in a thriving multi-disciplinary firm, helping clients to navigate complicated rules, meet deadlines, resolve problems and, sometimes, simply make sense of what the government has announced. That work will continue long after the headlines from 28 October have faded.

By this time of year, our thoughts have also started to turn to a much happier event – Christmas. For tax advisers, Christmas is never entirely free from tax. There are the familiar questions about Christmas parties, gifts to employees and clients, trivial benefits and VAT. Of course, all this is followed by the rush to get the remaining Self Assessment tax returns into HMRC by 31 January. And this year we also have MTD filing to contend with.

Perhaps this year we should add a few items to the profession's Christmas wish list for Santa. For me, the first thing would be more certainty. Tax advisers do not expect governments to stop changing the tax system. We do, however, hope that changes are properly thought through, clearly legislated and accompanied by timely guidance. Certainty may not make the most exciting Budget headline, but it makes an enormous difference to those who have to operate the system.

Secondly, we would like simplicity. Like Gladstone, every Chancellor talks about simplification. Yet the tax system continues to become more complicated. New rules are often layered on top of existing rules, creating exceptions, transitional provisions and anti-avoidance measures. For us tax advisers, the challenge is not simply knowing the tax law; it is navigating the increasingly complicated architecture around it.

Thirdly, a little more recognition for the people who make the system work. Tax advisers sit between taxpayers and HMRC. They help individuals and businesses to understand their obligations, correct mistakes and comply with an increasingly digital and complex tax system. Good advisers are an important part of tax administration, rather than an obstacle to it, and this should be acknowledged and appreciated more by Treasury and HMRC alike.

And finally, perhaps we could ask for fewer surprises. Not the good kind, of course – a genuine surprise Christmas present is always welcome. But a surprise tax liability, unexpected compliance requirement or last-minute legislative change is rather less popular.

I wish you all a Merry Christmas and a prosperous, slightly less complicated and hopefully less surprising 2027.

Ele Theochari
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NEWS

ANTI-AVOIDANCE

Court clarifies securities anti-avoidance rules

Securing capital gains tax relief does not automatically establish a purpose of obtaining an income tax advantage.

The Court of Appeal has dismissed HMRC's appeal over £20 million of share buyback proceeds, ruling that a main purpose of securing capital gains tax relief does not necessarily amount to a main purpose of obtaining an income tax advantage.

In *HMRC v Osmond and Allen* [2026] EWCA Civ 1440, the taxpayers had invested through the Enterprise Investment Scheme (EIS), qualifying for capital gains tax disposal relief. The shares were subsequently held through a replacement company, Xercise2 Ltd. In March 2015, concerned that a change of government might remove EIS disposal relief, the taxpayers arranged for the company to buy back shares for £20 million. HMRC argued that the proceeds should be subject to income tax under the transactions in securities anti-avoidance rules.

The First-tier Tribunal upheld HMRC's assessments, but the Upper Tribunal overturned the decision. HMRC appealed to the Court of Appeal.

The central question was whether securing EIS disposal relief necessarily constituted a main purpose of obtaining an income tax advantage under the Income Tax Act 2007 s 684. The Court of Appeal unanimously rejected HMRC's argument. It held that obtaining an income tax advantage, as defined by the legislation, was distinct from having a main purpose of obtaining that advantage. Securing capital gains tax relief did not automatically satisfy the separate income tax purpose requirement.

The decision highlights the importance of distinguishing a transaction's purpose from its tax consequences when applying the transactions in securities rules.

TAX ADMINISTRATION

MTD penalty easement extended

Taxpayers joining Making Tax Digital in April 2027 will receive a year-long easement from penalties for late quarterly updates.

The government has confirmed that taxpayers joining Making Tax Digital (MTD) for Income Tax from April 2027 will not receive penalty points for late quarterly updates during their first year.

The extension, announced in the October Budget and confirmed in updated HMRC guidance on 19 November, applies to taxpayers entering MTD in 2027/28, including sole traders and landlords with qualifying income exceeding £30,000.

The easement mirrors arrangements for taxpayers who joined MTD in April 2026. However, those taxpayers will begin receiving penalty points for late quarterly updates from 2027/28, with the first deadline falling on 7 August 2027.

The concession does not remove the obligation to maintain digital records or submit quarterly updates. Taxpayers must still submit their updates before filing their annual tax return, and penalties for late annual returns will continue to apply.

The CIOT has welcomed the extension, which gives the second group of taxpayers more time to adjust to the new reporting requirements.

TAX ADMINISTRATION

Payroll agents face registration deadline

Payroll professionals acting for clients must register with HMRC by February 2027 under new requirements.

HMRC has opened the third phase of mandatory tax adviser registration, bringing more payroll professionals within the new requirements. From 18 November 2026, payroll professionals who interact with HMRC on behalf of clients and do not already have an Agent Services Account (ASA) must register. The deadline for completing registration is 17 February 2027.

The requirements apply to payroll bureaux and other professionals providing payroll services to clients, including those who may not traditionally regard themselves as tax advisers. They form part of wider reforms intended to strengthen standards and improve oversight of agents interacting with HMRC.

Those already registered with HMRC through an ASA do not need to register again solely because of the new requirements. However, firms should check that their existing registration and account details are accurate.

Affected businesses should establish whether they fall within the new rules and ensure they have the necessary information to complete registration before the deadline. The changes are particularly relevant to smaller payroll providers and accountancy practices offering outsourced payroll services. Failure to register could prevent professionals from continuing to interact with HMRC on behalf of their clients.

DIRECTORS' LOANS

Loan novation triggers income tax

Upper Tribunal rules that transferring a director's loan to another group company amounted to a taxable release, despite the debt remaining outstanding.

The Upper Tribunal has dismissed an appeal by a company director who argued that transferring his loan to another group company did not amount to a taxable release. In *Powell v HMRC* [2026] UKUT 418 (TCC), Nicholas Powell owed £512,714 to Thermoline Ltd, a close company in which he was a participator. Under a novation agreement, Thermoline released him from repayment, while its holding company, Property Holding SW Ltd, became his new creditor. Although Mr Powell owed the same amount, HMRC treated the arrangement as a release of the original loan, triggering an income tax charge under the Income Tax (Trading and Other Income) Act 2005 s 415. HMRC amended his 2020/21 tax return, increasing his liability by £194,581.

The First-tier Tribunal upheld HMRC's decision. Mr Powell appealed, arguing that the loan had been satisfied because Thermoline received an equivalent debt from the holding company. He also argued that he had gained no economic benefit.

The Upper Tribunal rejected his arguments, applying *Collins v Addies* [1992] STC 746. It held that novation did not constitute repayment, even though the borrower remained liable for the same amount to a different creditor.

The decision highlights the potential income tax consequences of restructuring directors' loan accounts, even where no debt is forgiven in economic terms.

BUSINESS TAX

Views sought on corporation tax reform

Government consultation explores ways to simplify corporation tax administration, reduce duplication and improve digital services for businesses and their advisers.

The government is seeking views on the future of corporation tax administration,

including how technology and better information sharing could reduce compliance burdens. A call for evidence published on 28 October examines how the system could be modernised to reflect the different needs of small businesses, larger companies and complex multinational groups. It considers whether administrative requirements could be made more proportionate, while improving compliance.

Areas under review include record keeping, digital services, software integration and the use of artificial intelligence. The government is also exploring how information could be shared more effectively between businesses, advisers, Companies House and HMRC, reducing duplication and unnecessary reporting. The consultation raises questions about whether existing corporation tax filing and payment deadlines remain appropriate and how smaller companies could receive better support when starting or growing their businesses.

The government has confirmed that it does not intend to introduce Making Tax Digital for corporation tax. Instead, it is considering alternative approaches to modernisation.

The CIOT is inviting members to share their experiences of the current system, particularly where processes cause unnecessary work, delays or difficulties. The consultation closes on 20 January 2027. No immediate changes to corporation tax obligations are proposed.

CRYPTOASSETS

HMRC clarifies cryptoasset tax obligations

New VAT guidance and reporting requirements clarify businesses' responsibilities for cryptoasset transactions, including customer information, record keeping and tax compliance.

HMRC has published new guidance on the VAT treatment of cryptoassets, alongside further details of reporting obligations under the Cryptoasset Reporting Framework (CARF). Guidelines for Compliance GfC21, published on 15 October, explain how existing VAT rules apply to businesses selling, exchanging or facilitating cryptoasset transactions. They cover cryptocurrencies, non-fungible tokens (NFTs) and digital marketplaces.

The guidance confirms that VAT treatment depends on what is supplied and how it is used, rather than the description of a token. For example, an NFT representing digital artwork may be treated differently from one linked to physical goods. Businesses must establish whether VAT registration is required, identify customers' status and location, and determine where supplies are taxable. Digital platforms may also be responsible for accounting for VAT on transactions conducted through their services.

Separately, HMRC has published further technical guidance on CARF, which introduces international reporting obligations for cryptoasset service providers. The framework is intended to improve transparency by enabling tax authorities to exchange information about cryptoasset transactions.

Reporting cryptoasset service providers must collect relevant customer and transaction information and submit their first reports by 31 May 2027, covering transactions during the 2026 calendar year. HMRC has published specifications for reporting files and the validation checks it will apply. HMRC has removed the previously announced 1 January 2027 start date for submissions because its online reporting service will not be available by then. It will update its guidance when the service becomes available.

Advisers should review affected clients' VAT treatment, record-keeping arrangements and readiness for the new reporting requirements.

TAX ADMINISTRATION

HMRC plans direct bank deductions

New powers would allow HMRC to recover smaller tax debts directly from bank accounts, subject to safeguards for taxpayers.

The government has confirmed plans to introduce automated recovery of unpaid tax debts directly from bank accounts, following a consultation that closed in August.

In its response, published on 28 October, the government said the powers would apply to established debts of up to £5,000 for individuals and £10,000 for companies, including interest and penalties. The measures would target taxpayers who persistently fail to engage with HMRC after standard collection procedures have been exhausted. Disputed debts and those covered by existing payment arrangements would be excluded.

Following concerns raised during consultation, the government has strengthened proposed safeguards. Taxpayers would receive at least 28 days' notice before deductions begin, rather than the 14 days originally proposed.

HMRC would assess affordability before recovering debts, with vulnerable taxpayers referred for manual review. Joint accounts could be considered only where no suitable individual account exists, with additional protections for other account holders.

Taxpayers would have rights to object and appeal, with deductions paused during reviews. A proposed 'Refund First' safeguard would allow disputed deductions to be refunded while objections are considered.

Draft legislation and a Code of Practice are expected in summer 2027, with phased implementation from 2029/30.

VAT

Driving experiences lose VAT appeal

Upper Tribunal rules that supercar driving experiences did not qualify for the temporary reduced VAT rate for admission to attractions.

The Upper Tribunal has allowed HMRC's appeal against a decision that supercar driving experiences qualified for the temporary reduced VAT rate during the Covid-19 pandemic.

In *HMRC v Ingliston Driving Experiences Ltd* [2026] UKUT 440 (TCC), the company offered customers high-performance driving experiences at venues in Scotland and Northern Ireland.

During the pandemic, a temporary 5% VAT rate applied to admission to certain attractions, including amusement parks. Ingliston applied this rate, but HMRC argued that its services were standard-rated. The First-tier Tribunal found in favour of Ingliston, concluding that customers were purchasing admission to an attraction offering collective enjoyment.

The Upper Tribunal disagreed, ruling that the distinction was between admission to a common attraction and receiving an individually selected service. Customers chose their vehicle, options and whether to drive or be driven. Sharing a venue did not make this admission to a common attraction.

The Upper Tribunal held that Ingliston supplied individual recreational driving experiences, rather than rights of admission qualifying for the reduced VAT rate, upholding HMRC's assessment. Although the temporary reduced rate has expired, the decision clarifies the VAT distinction between admission to attractions and individual services.

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Third-party reporting

A clearer picture of income



New third-party data reporting requirements will help HMRC identify undeclared income, improve compliance and simplify reporting for taxpayers.

by Bill Dodwell

The next steps in gathering data from third parties were announced by HMRC on Budget Day 2026 and shortly thereafter (see tinyurl.com/56x7759b).

About 600 financial institutions currently supply HMRC with interest data. This is provided three months after the end of the tax year and does not include a tax identifier. From April 2028, finance bodies will need to provide interest data within three weeks of the end of each quarter in the tax year, or annually for some types of interest. They will need to supply an individual's National Insurance number with the interest information (or confirm that the individual does not qualify to have an NI number). As well as banks, building societies and National Savings, other payers, such as wealth managers, are included.

Interest income reporting

Regulations covering the supply of interest data and credit/debit card data (tinyurl.com/ycyscm4p) have been published, together with guidance for financial institutions (tinyurl.com/37erkw34). The guidance covers issues such as joint accounts, accounts where the holder has died, and when the NI number should be obtained for existing accounts (HMRC expects annual enquiries of bank customers).

HMRC expects to allocate interest income to an individual's personal tax account shortly after receipt and use it to adjust tax codes much more quickly than currently. It will also be used in simple assessments and to pre-populate accounts for Making Tax Digital for Income Tax and Self Assessment. It is understood that data will be presented for each account, rather than in aggregate, so individuals should be able to check its accuracy.

The change is estimated to raise £490 million in 2029-30; £660 million in 2030-31; and £840 million in 2031-32. HMRC's costs are estimated at some £68.3 million, predominantly to establish the new data system and the infrastructure needed to deliver the targeted upstream compliance interventions to bring in the extra tax. No estimate has been published of the costs to financial institutions of modifying their systems and gathering NI numbers and other identifying data.

About 13 card processors (merchant acquirers) currently supply credit and debit card data by supplier to HMRC. From April 2028, this will need to be provided monthly, again with a tax identifier, such as a VAT registration number, an NI number or a company registration number. HMRC will use the third-party data to identify businesses that 'attempt to gain an unfair competitive advantage by evading tax'.

Property income and dividends

The next steps in the third-party data journey cover property income and dividends. A consultation was published on Budget Day on 'Improving Property Income data reporting' (see tinyurl.com/mrmdcv36).

The consultation considers the detailed design and implementation of improvements to the quality of specific data already acquired under HMRC's data-gathering powers (Finance Act 2011 Sch 23). The datasets in scope are those relating to:

- letting agent data: rental income data provided by letting agents; and
- tenancy deposits: tenancy deposit data provided by tenancy deposit protection schemes.

Currently, HMRC collects this data by issuing notices to data holders – over 10,000 each year. It is intended that data provision should become automatic, as will be the case for interest. The consultation covers the detailed design of the new obligations, including reporting frequency; the scope of information to be included; the standards that should apply to data quality; and how data holders can report the data after the end of the reporting period.

The document notes that HMRC has used property data in several campaigns to encourage reporting. 'However, HMRC continues to struggle to close the tax gap for property income, due in part to the fact that data can be incomplete, difficult to match accurately to taxpayer records, and is often received too late to support timely compliance interventions.'

A key change will be to require more frequent reporting during the tax year, rather than 60 days after a notice has been issued after the tax year. The government is considering monthly or quarterly reporting, which should enable HMRC to prompt landlords to include rental income in their Self Assessment tax returns or in Making Tax Digital for Income Tax. The consultation also asks how long letting agents and tenancy deposit schemes would need to report the information. It is intended, as for interest, to move to a structured data system, such as XML or JSON, which are typically used for tax reporting. Tax identifiers will also be needed, such as NI numbers, VAT or company registration numbers, or Unique Taxpayer References for partnerships.

Finally, the property document gives an update on dividend reporting. It notes that HMRC has collected dividend data from a small number of investment platforms during 2026 to progress potential reforms of dividend income data. The analysis of this data will inform the next steps of the policy for dividend income. An update will be provided at a later stage on how to implement this new dataset.

The Office for Tax Simplification published its first report on the whole area in 2021. Implementing third-party reporting, as the government now plans, should help to simplify tax reporting for taxpayers, as well as reduce the tax gap.



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VAT groups
One number, many consequences

VAT grouping offers significant savings but brings risks involving eligibility, HMRC scrutiny, partial exemption, customs arrangements and administrative disruption.

by Greg McNally

Consider the example of Ferrick Quay Ltd, which has applied to join a new VAT group. The application was submitted, and seven weeks later the new VAT group number arrives. The finance director is delighted: one return instead of four, no VAT on management charges, and a tidier year end. Meanwhile, a container of components for Ferrick Quay is sitting at Felixstowe, declared under an EORI number that disappeared when the company's own VAT registration was cancelled. The freight forwarder is on the phone, the entry won't go through, and the production line in Glasgow has three days of stock left.

The VAT analysis was sound. The paperwork was right. The savings are real. The problem is that a VAT number does far more work than many realise, and changing it has consequences well beyond the VAT return.

I'll come back to Ferrick Quay at the end. First, the group itself.

What a VAT group does

A VAT group allows two or more eligible persons under common control to register as a single taxable person. One member, the representative member, files a single return for the whole group, and supplies between all members are disregarded for VAT purposes.

That second point is where most of the value lies. A management charge from a service company to its partially exempt sister company carries no VAT, so there is no sticking tax. The price of admission is joint and several liability. Every member is liable for the whole group's VAT, and that liability stays with a member for the periods it was in, even after it leaves the VAT group.

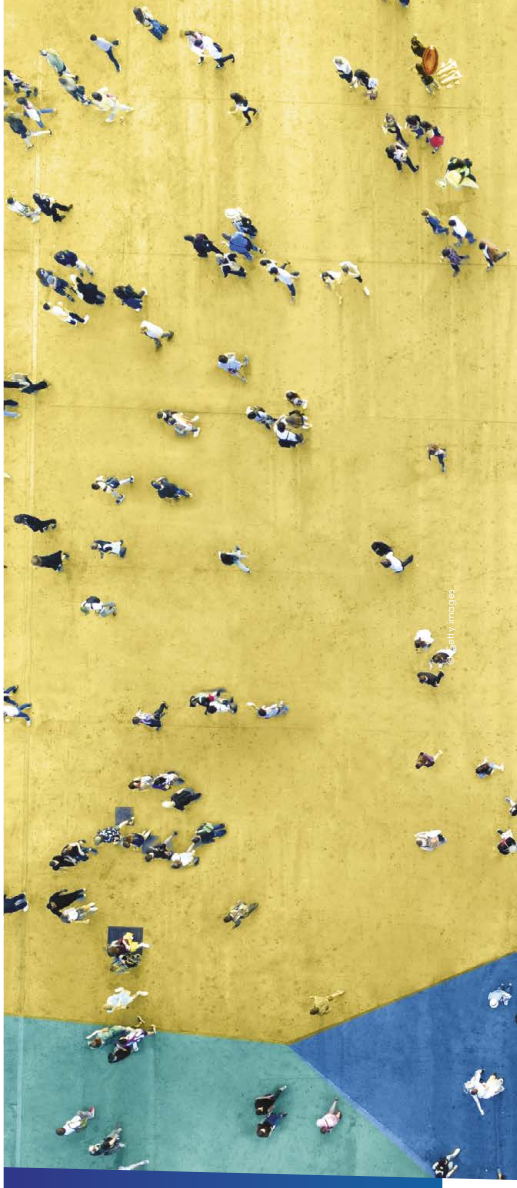
For most of the history of UK VAT, only bodies corporate could be members. In November 2019, eligibility was extended to individuals, partnerships and Scottish partnerships. The non-corporate member must carry on a business, be established in the UK, and control every corporate member. Control is tested by asking whether the individual or partnership would be the holding company of those companies if it were itself a company.

In practice, this opens VAT grouping to the sole trader or partnership that owns the companies it works alongside. It does not help two 50/50 shareholders, whose holdings cannot simply be added together to create control.

Establishment and the *Barclays* lesson

Every member must be established, or have a fixed establishment, in the UK. An overseas company can join through a UK branch, and when it does, the UK treats the whole legal person as part of the group. That whole-entity approach is what makes VAT grouping attractive to multinationals. Services from an overseas head office to UK VAT group members are disregarded, subject to the anti-avoidance rules on bought-in services.

Barclays Services Corporation v HMRC [2026] UKUT 211 is a reminder that the branch must be real on the day of the application. A US service company applied to join the Barclays UK VAT group through its UK branch. At the application date, employment contracts had been signed but only one employee had started work. The Upper Tribunal upheld the finding that there was no fixed establishment. An intention to build a qualifying establishment is not enough.



Key Points

What is the issue?
A VAT group turns several businesses into a single taxable person, with supplies between members disregarded. The savings are real, but the eligibility rules, HMRC's powers and the practical consequences of a new VAT number are often underestimated.

What does it mean to me?
Overseas members need a genuine UK establishment on the day of application. The *Barclays* case, and HMRC's approach to the care sector, show its protection of the revenue powers being used more widely.

What can I take away?
Treat a VAT group application as a change to the whole business. Check eligibility and establishment, get the membership and effective date right first time, and time the change around the shipping calendar.

HMRC also argued that, following the CJEU's decision in *Danske Bank A/S* (Case C-812/19), only the UK branch should be treated as grouped. The Upper Tribunal rejected this as undermining a fundamental feature of the UK rules, and described HMRC's approach as 'somewhat strange, to put it mildly', given that it ran contrary to HMRC's published position.



KEY TAKEAWAYS

- Test every proposed member for control and UK establishment as they stand on the application date.
- Check the combined partial exemption and de minimis position, and each member's compliance record, before anyone joins.
- Map everything that hangs off each member's VAT number, from EORIs and deferment accounts to forwarder instructions, and set the effective date around it.
- Partially exempt groups with EU establishments that reverse charged under the old Skandia policy should review whether an error correction claim is available.

That published position has itself moved. For a decade, HMRC applied the *Skandia* principle, treating an overseas establishment in an EU state with establishment-only grouping as a separate taxable person. VAT groups in that position had to reverse charge certain head office and branch services.

Revenue and Customs Brief 7 (2025) withdrew that policy from 26 November 2025. As a result, HMRC now treats such establishments as part of the UK group and confirms that groups which accounted for VAT under the old policy may be able to reclaim overpaid VAT through error correction, subject to the normal time limits.

For any partially exempt business that has reverse charged since 2015, whether a bank, an insurer or a gambling operator, the potential for a VAT repayment is worth investigating.

Where VAT groups work, and where they don't

The classic case for VAT grouping is a partially exempt business with a service company. Staff, premises and IT sit in one entity and are recharged to the operating companies. Outside a VAT group, those recharges carry VAT which the exempt side cannot recover. Inside a VAT group, the recharge simply disappears. A single return is a welcome administrative saving on top.

The problems start when VAT grouping is treated as a default rather than a decision. Bringing an exempt or partially exempt company into a fully taxable VAT group can restrict recovery on shared overheads that were previously recovered in full. A group that was comfortably de minimis can lose that status overnight, because the partial exemption de minimis test applies to the group as a whole, rather than to each member separately. The £7,500 annual limit applies to the group's combined exempt input tax, making it easier to exceed the threshold.

Joint and several liability deserves more attention than it gets. VAT grouping with a company you do not fully control, or one with a patchy compliance record, means sharing its exposure. One member's late information holds up the group return, and one member's mistake becomes the group's assessment.

Protection of the revenue

HMRC can refuse an application, or remove a member from an existing VAT group, where it considers this necessary for the protection of the revenue. A refusal must be made within 90 days of receiving the application, and removal on these grounds takes effect from the date of HMRC's notice.

HMRC accepts the natural savings that VAT grouping produces, such as disregarded management charges. The power is intended to prevent arrangements that go beyond these legitimate savings.

The *Barclays* case also shows how far that power may reach. Even if the branch had qualified, the Upper Tribunal indicated that HMRC could reasonably have refused the application, because the VAT saving was large compared with the activity actually carried on in the UK. Although that observation was not necessary to decide the case, it may influence HMRC's approach to future applications.

The care sector shows how HMRC's powers can affect an entire industry. Care is normally exempt, so providers cannot recover VAT on their costs. By VAT grouping with an unregulated company, providers could charge VAT to local authorities, who can reclaim it, and recover VAT on their own costs in turn. HMRC accepted these arrangements for years, sometimes expressly agreeing to them. However, Revenue and Customs Brief 2 (2025) reclassified the arrangement as avoidance, and HMRC is now refusing new applications and investigating existing VAT groups, all without any change in the law.

The lesson for anyone designing a VAT group structure is that a saving which only exists because of the VAT group will attract HMRC's attention.

Applying, and waiting

HMRC's guidance asks applicants not to chase until 40 working days have passed. That has been the position since May 2024, when it was increased from 15 working days.

Unless HMRC refuses within 90 days, the group takes effect from the date the application is received, or another date HMRC allows.

Revenue and Customs Brief 5 (2022) sets out what to do in the meantime. Treat the application as provisionally accepted from the date it was submitted, and account for VAT as a group from then. Members with existing registrations should stop filing separate returns and issuing VAT invoices under their old numbers. Sales can be invoiced for the gross amount marked 'VAT number applied for', with no VAT shown separately. Once the group number arrives, the invoices can be credited and reissued. Automated assessments and payment demands generated while you wait will be cancelled once the application is processed.

Regular repayment traders need particular care. Once the application is in, separate returns stop, so any repayment due to a joining member waits until the group number arrives and the first group return is processed. Even when only one company is in a repayment position, that can mean weeks of lost cash flow.

Getting the membership right first time matters. In *Beritaz Care Ltd v HMRC* [2026] UKFTT 912, a care home had been left out of a VAT group registration by oversight. Four years later, the group applied to add it retrospectively. HMRC did not refuse within 90 days, so the care home joined automatically, but only from the day the application arrived. HMRC then refused to backdate it. The tribunal could not hear the appeal, because the application itself had been granted and backdating was a matter for HMRC's discretion. If a member is missed at the outset, there may be no route back.

Back to Ferrick Quay

Ferrick Quay's problem began the moment its individual VAT registration was cancelled. A VAT-registered business's EORI number mirrors its VAT number, and HMRC removes EORI numbers when the underlying VAT registration is cancelled. Joining a VAT group cancels that registration.

The new number is only the start. Duty deferment accounts and guarantees, customs authorisations, forwarder instructions, postponed VAT accounting statements and customer and supplier records all hang from it. Businesses need to contact HMRC's supervising office about their authorisations, and none of this moves automatically when the group is approved.

A company joining an existing VAT group can have another member that already holds an EORI make declarations on its behalf while its own number is sorted. A brand-new VAT group has no such fallback. Until the new numbers and the authorisations behind them are in place, nobody in the group can clear goods in their own name.

That is where Ferrick Quay came unstuck. What it needed was a plan: an effective date set around the shipping calendar and clear of goods at sea, stock built up ahead of the gap, the forwarder and customs agent briefed early, and the customs changes ready to go the day the number arrived. All of this required careful planning and coordination.

Get that right, and the container at Felixstowe becomes a minor delay rather than a crisis.



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R&D tax relief
Where AI changes the test

Advisers preparing software R&D claims must consider how AI affects qualifying activity and the evidence needed to support claims.

by Nicky Bhamra

Key Points

What is the issue?
Advisers preparing R&D tax relief claims need to consider how the growing use of AI in software development affects what is 'readily deducible' and where genuine technological uncertainty begins.

What does it mean to me?
Advisers need to establish where AI-assisted approaches reached their limits, what technological uncertainty remained and what work competent professionals undertook to resolve it.

What can I take away?
Strong claims will require clear project narratives and contemporaneous evidence showing why AI could not readily resolve the uncertainty and documenting the work undertaken beyond its capabilities.

The increasing use of AI in software development could have significant implications for R&D tax relief, particularly when determining what constitutes technological uncertainty and what could be readily deduced by a competent professional.

AI changes the R&D landscape

It remains the case that, to meet the definition of R&D for tax purposes as set out in the Department for Science, Innovation and Technology (DSIT) Guidelines, a project must be seeking an advance in the wider field of science or technology through the resolution of scientific or technological uncertainty.

For software projects, HMRC's focus is on the underlying technology rather than the end-user functionality. The question is whether the way the software is designed, the processes it uses or the technical choices involved represent an advance in publicly available knowledge that could not readily have been deduced by a competent professional using existing expertise, tools and techniques.

The problem must therefore be something that a competent professional could not readily resolve by applying their expertise or using standard tools,

established techniques or publicly available information, such as documentation or online forums.

However, AI is moving to the forefront of software development. The January 2026 JetBrains AI Pulse Survey of professional software developers, based on a sample of more than 10,000 developers worldwide, found that 74% had adopted specialised AI development tools, including coding assistants, editors and agents.

Where a company is undertaking fundamental AI research, a technological advance may be relatively straightforward to demonstrate, provided there is genuine technological uncertainty and documented work to resolve it. However, in AI-assisted projects, the benchmark for what is considered 'readily deducible' is becoming harder to define. Problems that once required extensive engineering effort and literature reviews can now be resolved much more quickly with the support of AI tools drawing on a vast body of publicly available knowledge.

How AI may affect scrutiny

Software R&D claims may be reviewed with support from specialists in HMRC's Chief Digital and Information Office (CDIO). Their questions may cover the underlying technologies, the competent professionals involved and the state of knowledge and capability in the wider field at the outset of projects.

These considerations take on greater significance as the growing availability of AI-assisted development tools influences what may be considered 'readily deducible' to a competent professional. HMRC enquiries may increasingly consider whether an available AI development tool could have resolved the problem, requiring claimants to explain why it could not do so and what technological uncertainty remained.

The HMRC Corporate Intangibles Research and Development Manual (CIRD), which includes guidance on the application of the R&D guidelines to software, does not explicitly address the treatment of AI-assisted development. There is therefore little formal guidance on how its use may affect judgements about what is readily deducible.

For advisers, the challenge is less about understanding the technology and more about being able to interrogate it. When AI has played a significant role in development, the starting point is not to ask whether AI was used, but to establish exactly where its contribution ended and where a competent professional had to take over. Advisers preparing or reviewing a claim need to test this boundary directly with the claimant: which parts of the solution came from AI output with little modification, and which parts required judgement, experimentation or the rejection of AI-generated options?

Where qualifying R&D begins

Most commonly, companies are using commercial AI tools, such as large language models and other pre-trained AI systems. Simply using advanced technology, even where it delivers significant commercial benefit, is not in itself sufficient for R&D tax purposes. The project must seek an advance in science or technology, rather than simply applying existing tools in a standard way.

It is therefore important for R&D claimants to articulate clearly where the technological uncertainty genuinely lay, why it could not be resolved by competent professionals using existing knowledge, with or without AI assistance, and how the project went beyond what a competent professional, supported by available AI tools, could readily deduce at the outset.

In practice, AI tools may take a project part way towards a solution,



AI does not negate R&D activity, but it may change what a claim needs to demonstrate.

without fully addressing the underlying technological uncertainty. The focus then shifts to whether resolving the remaining uncertainty would have been readily deducible to a competent professional. AI may therefore shift the starting point for qualifying activity rather than prevent a project from qualifying altogether.

AI and qualifying R&D

To illustrate how AI can sit within a qualifying project, consider the following examples.

In each of these scenarios, AI accelerates exploration but does not remove the work required by competent professionals to resolve technological uncertainty. Subject to the relevant criteria being met, a qualifying R&D tax claim may still arise.

Scenario 1: Resolving uncertainty: A development team is designing a system with demanding performance requirements. AI tools suggest possible approaches, but cannot establish whether they will work at the required scale. Engineers must therefore experiment with competing approaches and discard those that fail.

Scenario 2: Reframing the problem: AI tools can turn what would previously have been a series of smaller technical problems into a broader challenge about how the system should be designed. Rather than exploring individual improvements, the team must determine whether a different overall design will work.

Scenario 3: Testing AI-generated options: AI tools produce multiple plausible solutions to a problem involving the processing of data. Each option must be systematically tested, refined and, in some cases, abandoned due to unforeseen technical limitations. The uncertainty is only resolved through experimentation, not by accepting AI outputs at face value.

Scenario 4: Regulated environments: A development team is implementing a process using AI within a highly regulated environment. While AI tools can generate code and suggest ways of incorporating it into existing systems, uncertainty remains around how the solution can meet strict requirements relating to audit, traceability, security or data storage and processing. The uncertainty lies not in the adoption of AI itself but in determining how it can operate within the project's constraints.

By contrast to the above scenarios, AI-related work will not in itself qualify as R&D where it involves:

- software that is new only to the business, rather than representing an advance in science or technology;
- using off-the-shelf AI tools, platforms or interfaces in the way they are intended to be used;
- routine training or adjustment of AI models; or
- the automation or digitisation of existing business processes where there is no scientific or technological uncertainty.

Evidence of qualifying R&D

As development practices evolve in this way, traditional indicators such as lines of code are becoming less meaningful on their own. Instead, evidence of R&D activity may be found in:

- documentation showing a process of experimentation, including failed experiments using AI;

- records of testing across the system where outcomes could not be predicted in advance;
- records of changes to the software, such as development histories held in Git repositories, showing iterative development and abandoned approaches used in attempts to resolve uncertainty;
- design and architectural records showing trade-offs, rejected approaches and the reasons for key decisions, including AI-generated options that were discounted even if not attempted in practice; and
- evidence that apparent software failures were actually the result of unsuccessful technical experiments.

For advisers, a useful rule of thumb is that claimants should not only be able to explain how AI assisted the development process, but also what technological thinking and work remained once AI-assisted approaches had reached their limits. Three simple questions can help get to the heart of this:

1. At what point did AI-generated suggestions or code cease to provide a sufficient solution?
2. What technological uncertainty or technical constraints remained after AI-assisted approaches had been explored? For example, were there unresolved issues involving performance, the ability of the system to operate at greater scale, speed, security or integration with other systems?
3. Can the claimant demonstrate the decisions, trade-offs and reasoning that took place beyond the outputs generated by AI?

Equally, while it is important to identify where AI stops and R&D starts, it is important to avoid relying upon hindsight. R&D tax claims can be made up to two years after the end of the accounting period in which the work was undertaken. As solutions mature and become incorporated into standard development practices, the uncertainty that existed at the outset can easily be underestimated. The relevant test remains what a competent professional could reasonably have established at the time, not what is apparent in retrospect.

Looking ahead

AI does not negate R&D activity, but it may change what a claim needs to demonstrate. Companies will need to identify precisely where technological uncertainty existed and what work was required once AI-assisted approaches had reached their limits.

For advisers, the key is to identify where competent professionals moved beyond what AI, a search engine or a textbook could reasonably have told them. Clear project narratives and contemporaneous evidence will be increasingly important, and advisers who build this approach into the evidence-gathering process will be better placed to demonstrate why an R&D claim is robust.

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Interview with Leon Ward

More than a tax problem

Just weeks into his new role as Chief Executive of TaxAid, Leon Ward talks to Tax Adviser editor Angela Partington about the challenges facing vulnerable taxpayers, his ambitions for the charity and why education could be key to its future.



Just four weeks into his new role as Chief Executive of TaxAid, the charity providing free specialist tax advice to people on low incomes, Leon Ward has already been struck by the complexity of the lives of those seeking help.

Some are experiencing domestic abuse, serious illness or insecure housing. Others are juggling several low-paid jobs, perhaps combining driving for Uber with shop work, caring responsibilities or selling goods online. Older people, meanwhile, may struggle to understand the tax implications of their pensions. With little formal education about tax and limited understanding of their obligations, many can find themselves in complicated situations without even realising that something has gone wrong.

For people facing such challenges, navigating the tax system can be an almost impossible additional burden. 'If you're looking for somewhere to live, the last thing you want to do is have to find your Government Gateway ID,' he says.

Listening to calls from the charity's helpline has given Ward an immediate insight into how easily tax problems can arise, and how difficult they can be to resolve when people are already facing other pressures.

'Most people want to get it right,' he says, but too often they struggle with the tax system. It is a challenge that Ward is keen to address as he begins to shape the next chapter in TaxAid's development.

A background in social mobility

Ward joined TaxAid on 5 October, having spent three and a half years as Chief Executive of Money Ready, a national financial education charity. During his time there, he expanded its operations across all four UK nations, oversaw a rebrand and led a merger with another financial literacy organisation.

His earlier career was spent largely in education and social mobility, working with organisations that helped young people develop their confidence, skills and opportunities.

At Money Ready, he began to question the assumption that financial education should concentrate almost exclusively on younger people. The charity extended its services to people up to the age of 40, recognising that financial understanding does not necessarily develop automatically with age.

'You turn 18 and then everything's thrown at you,' he says, pointing to the sudden responsibility of managing credit cards, mortgages, employment income and debt.

For Ward, the move to TaxAid represents a natural progression. While financial education can help people make informed decisions, TaxAid deals with the consequences when people find themselves unable to navigate their obligations. Although Ward was unfamiliar with TaxAid before taking up the role, he quickly recognised the importance of its work and the opportunities to build on its achievements. Raising awareness of the charity and extending its reach are now among his priorities.

When life gets complicated

Following its merger with Tax Help for Older People, TaxAid now brings together services previously delivered by two charities, including specialist support for older taxpayers.

Ward sees the merger as an opportunity to provide a more joined-up service. Both organisations were already operating with relatively lean structures, and he emphasises that bringing them together was not primarily an exercise in cutting costs. Instead, the merger brings together complementary services, allowing the charity to support people with tax difficulties at different stages of their lives.

The problems clients bring to TaxAid are often more complicated than they initially appear, particularly when people have misunderstood their obligations or assumed that their tax affairs are being dealt with automatically. Ward recalls listening to a call from a construction worker who had spent years believing that his tax responsibilities were being met because deductions were made from his earnings under the Construction Industry Scheme.

'They took tax off me at the point of pay. So I thought that was done,' the



> **Ward is keen to explore how TaxAid might help people understand their obligations before problems arise.**

caller explained. It was only later that he discovered his tax affairs had not been fully dealt with, leaving him facing a problem that had developed over a considerable period.

Ward believes this reflects a wider problem. People are accustomed to providing their National Insurance number when starting work and may reasonably assume that the information needed to calculate their tax is already available to government. It is understandable that some taxpayers believe their obligations are being met without any further action on their part. 'You would just think it was all sorted,' he says.

The difficulty is compounded by a lack of understanding about how the tax system operates. Ward identifies what he describes as a 'perfect storm': complexity within the system, insufficient education about tax and pensions, and the reluctance or lack of confidence that can prevent people from seeking information.

Supporting vulnerable taxpayers

One of the challenges facing TaxAid's advisers is the need to understand much more than the immediate tax problem. Clients may explain that they are off work because of illness, experiencing a relationship breakdown or struggling with their housing situation. Advisers must therefore consider not only the technical issue but also the circumstances affecting an individual's ability to deal with it.

The charity works closely with other organisations supporting vulnerable people, including Age UK, debt advice providers and domestic abuse charities. These organisations often identify clients who need specialist tax assistance and refer them to TaxAid, which can provide expertise that falls outside their own remit. 'We can do the bit that other organisations don't feel comfortable doing,' Ward explains.

TaxAid also works with HMRC's Extra Support Team, which can help progress cases involving vulnerable taxpayers. Ward is positive about the relationship with HMRC, although he recognises the scale of the challenge. With millions of taxpayers and a comparatively small team at TaxAid, the charity's intervention can sometimes feel like 'a drop in the ocean'.

One area of particular concern is the increasing digitalisation of tax services, which can create additional difficulties for older people who may lack the equipment, confidence or ability to access online systems. But Ward points out that digital exclusion is not always simply a question of access to technology. His own grandmother, for example, uses an iPhone and is comfortable with social media, yet she struggles to process correspondence from HMRC, the Department for Work and Pensions or pension providers. When a letter arrives, she turns to him for help.

Her experience illustrates an important distinction: being comfortable with digital technology does not necessarily mean someone can understand complex financial information or manage their tax affairs independently. Ward believes that even those who are financially knowledgeable can struggle with the tax system, making the need for clearer information and simpler processes all the more important.

From solving problems to preventing them

For Ward, however, simplifying the tax system is only part of the answer. Drawing on his background in financial education, he is keen to explore how TaxAid might help people understand their obligations before problems arise, rather than simply stepping in when things have gone wrong.

With financial literacy being considered as part of the school curriculum, Ward believes there is an opportunity for TaxAid to contribute its specialist knowledge to discussions about what young people should learn,

particularly about their future tax obligations. 'I think there is a role for TaxAid to be talking about what tax education might be appropriate for kids at 14, 15, 16,' he says. Introducing these concepts at an earlier age could help people prepare for the financial responsibilities they will encounter when they start work.

Another area he is interested in exploring is the support available to younger entrepreneurs, particularly those setting up businesses for the first time. Someone starting out as self-employed may have little understanding of record-keeping, the distinction between business and personal finances or the obligations that arise when incorporating a company. Ward recalls a young friend working as a DJ who had not realised the importance of separating his income and keeping appropriate records.

For someone trying to establish a business, an unexpected tax liability can be particularly damaging. 'What we don't want them to do is be smacked with a massive tax issue that demotivates them and takes the wind out of their sails,' he says. Although TaxAid's services are restricted to people on low incomes, Ward believes there may be opportunities to support those in the early stages of entrepreneurship, when earnings are often modest.

Technology could also have a role to play in helping people access advice. Ward has already seen evidence of how artificial intelligence is changing the way people seek assistance. A number of callers recently said they had discovered TaxAid through AI tools. While he sees opportunities for AI to help people identify problems and find appropriate support, he is concerned about the risks of relying on automated information without professional oversight.

'AI should enhance what we do, not replace it,' he says. One possibility he is considering is the introduction of a website chatbot to deal with straightforward enquiries, although he acknowledges that the wider implications of AI for advice charities remain uncertain. For now, the priority is to understand how the technology can help people access reliable advice without losing the human expertise that is central to TaxAid's work.

> **We're looking for people that have time and patience to work with people that face complex situations.**

Growing the organisation

Alongside these ideas for developing TaxAid's services, Ward has clear ambitions to expand the organisation itself. 'I'm definitely here on a growth agenda,' he says. He wants the charity to reach more people, raise awareness of its services and strengthen its position both within the tax profession and beyond it.

But growth presents a challenge. TaxAid is already managing considerable demand, with Ward acknowledging that the immediate priority is not necessarily to attract more callers, but to ensure that the organisation has the resources to help them. The average helpline waiting time is currently only around 10 minutes, although Ward has yet to experience the pressures associated with the self-assessment deadline.

Expanding the charity's capacity will require investment not only in frontline advisers but also in the systems and infrastructure needed to support their work. Ward acknowledges that securing funding for essential infrastructure, such as IT systems, can be more challenging than attracting support for frontline services. He is also conscious of the need to attract and retain experienced staff, particularly when charities must compete with commercial employers for skilled professionals. His ambition is to make TaxAid one of the best charities in the country to work for.

These priorities will help shape a new organisational strategy, which Ward expects to publish in the coming months, setting out the charity's direction over the next three to five years. He is also considering how to use TaxAid's 35th anniversary in 2027 as an opportunity to raise awareness and strengthen support. One possibility is the launch of a three-year strategy taking the organisation to 2030, providing a focus for its next phase of development.

The profession's role

Achieving these ambitions will depend in part on continued support from the tax profession, whose expertise is central to TaxAid's work. The charity relies on a combination of paid advisers, helpline staff and volunteers, including professionals working with its corporate partners. Its triage team handles initial enquiries and can resolve some straightforward problems, such as queries about PAYE coding notices, while more complex cases are referred to qualified advisers or volunteers.

The commitment required can be considerable. Some cases take several months to resolve, and Ward mentions one particularly complicated case that has been ongoing for three and a half years. Volunteers therefore need more than technical expertise. 'We're looking for people that have the time and the patience to work with people that face complex situations,' he says, emphasising the importance of care and compassion when clients struggle to explain their circumstances or are dealing with other difficulties in their lives.

Ward is grateful for the support TaxAid already receives from CIOT and ATT and hopes to build on these relationships as he develops the charity's strategy. He believes there is considerable goodwill within the profession, particularly among experienced practitioners who may be looking for opportunities to use their skills to help others. However, volunteering is not the only way to contribute. Fundraising, financial donations and raising awareness of the charity's work can all help TaxAid increase the support it provides.

As TaxAid approaches its 35th anniversary, Ward sees an opportunity to build on the charity's achievements while extending its reach and exploring new ways to prevent tax problems before they arise. His first few weeks have reinforced the importance of that work, and the challenge of ensuring that people who want to meet their obligations have the support they need to do so. Behind every tax problem is an individual trying to make sense of their obligations, often while dealing with much more pressing concerns. Helping them to do so remains at the heart of TaxAid's work.

MAKE YOUR LAST HOUR COUNT THIS YEAR

This Christmas, TaxAid is asking supporters to make their last hour count. By donating your last hour's pay, you can help someone facing a tax problem access the expert support they need. Give someone a fresh start.

To donate your last hour's pay, scan the QR code or visit: taxaid.org.uk/last-hours-pay



Travel and subsistence

Modern working arrangements

Changing working practices are testing long-established travel and subsistence rules, requiring employers to review workplace status, expenses and compliance arrangements.

by Susan Ball and Justine Riccomini

Key Points

What is the issue?
Working practices have evolved considerably, but the travel and subsistence rules remain based on long-established principles. Hybrid working and changing workplace arrangements can therefore create unexpected employment tax consequences.

What does it mean to me?
Employers need to consider whether changing working patterns affect workplace categorisation and the tax treatment of travel and subsistence, particularly where actual arrangements differ from those originally documented.

What can I take away?
Assess the employment tax consequences before workplace changes become established, document arrangements appropriately and monitor working patterns over time, using available workforce data to identify potential compliance risks.

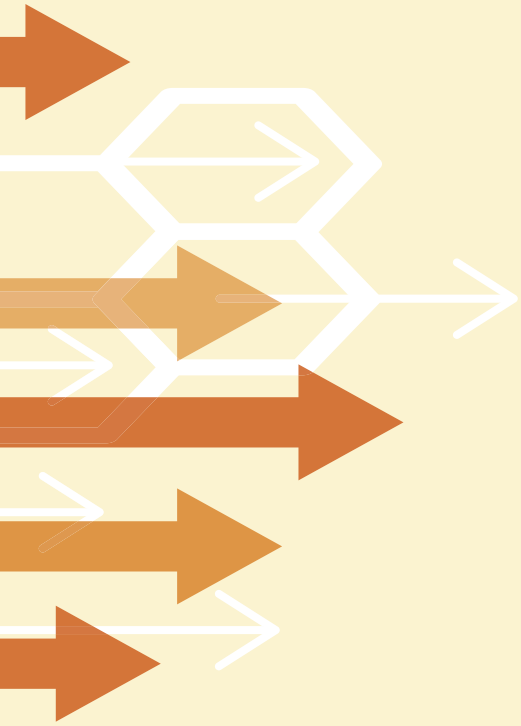
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The way in which organisations deploy their workforces continues to evolve. Employees increasingly tend to divide their time between homes, regional offices, client sites and other locations, whilst many employers have embedded hybrid and flexible working arrangements into their operating models.

Despite these developments, the tax legislation that governs travel and subsistence is still founded on the statutory principles that were substantially recast in April 1998, and which have changed relatively little since. The distinction between a permanent workplace, a temporary workplace and ordinary commuting remains central to determining whether travel expenses qualify for tax relief.

This presents an ongoing challenge for employers. As workplace arrangements become more varied, the application of long-established tax concepts can become increasingly difficult. Changes that have been introduced for operational, commercial or employee-relations reasons can have significant and sometimes unexpected employment tax consequences. Arrangements that are intended to support workplace flexibility may inadvertently alter the tax treatment of travel expenses, creating PAYE and NIC exposures.

The compliance environment has also evolved. Since the introduction of the statutory exemption for qualifying business expenses in April 2016, which replaced P11D dispensations, employers have assumed greater responsibility for ensuring that expense payments satisfy the legislative requirements. Looking ahead, mandatory payrolling of benefits from April 2027 will further increase the



RECENT CHANGES TO WATCH

Mileage allowances: From 6 April 2026, the Approved Mileage Allowance Payments (AMAP) rate for cars and vans increased from 45p to 55p per mile for the first 10,000 business miles travelled in a tax year. The rate above 10,000 miles remains at 25p per mile until April 2027 when it becomes 35p per mile. Employees reimbursed at a lower rate may be entitled to claim Mileage Allowance Relief on the difference between the amount reimbursed and the relevant AMAP rate.

Employers should check whether expense policies and employment documentation automatically incorporate changes to HMRC rates or need to be amended when rates are revised.

Homeworking expenses: From 6 April 2026, employees can no longer claim income tax relief directly from HMRC for unreimbursed household expenses incurred because of homeworking.

Employers may, however, continue to reimburse qualifying additional household expenses, including payments of up to £6 per week under HMRC's established administrative practice, without a tax or NIC charge where the relevant conditions are satisfied.

PAYE Settlement Agreements: Following HMRC's recent consultation, employers should keep potential changes to PAYE Settlement Agreements (PSAs) under review. Any reform could affect which items may be included and the associated compliance obligations. As travel and subsistence errors are sometimes settled through PSAs, changes could affect how employers deal with such liabilities.

importance of obtaining the correct tax treatment when expenses are reimbursed, rather than identifying errors retrospectively through year-end reporting processes.

Against this background, employment tax should be considered at the outset whenever new workplace arrangements are being planned. Procedures should also be in place to identify subsequent changes in working patterns that could alter the tax position.

Travel and subsistence compliance

Travel and subsistence remains one of the areas most frequently challenged during HMRC employment tax compliance reviews. Although the legislative framework is well established, its application to modern working practices is not always straightforward.

Errors often arise where employers redesign workplace arrangements without fully considering the tax consequences or where working patterns evolve over time. A new regional office, hybrid working policy, client-site arrangement or relocation programme may appear to be primarily an operational matter, but each has the potential to affect workplace categorisation and, therefore, the tax treatment of travel expenses.

Relatively small changes in working patterns can transform travel that previously qualified for relief into ordinary commuting. Where this occurs, reimbursements previously treated as exempt may become taxable, potentially creating liabilities for tax, NIC, interest and penalties.

These risks are becoming more significant as employers make greater use of automated expense management systems and HMRC has access to increasingly detailed information about actual attendance patterns and working arrangements.

The legislative framework

The legislation provides two principal routes to relief for employment-related travel expenses.

The first, contained in the Income Tax (Earnings and Pensions) Act (ITEPA) 2003 s 337, applies where travel is undertaken in the performance of the duties of the employment. This can include travel between workplaces during the working day and circumstances in which travelling forms part of the employee's duties.

The second, contained in ITEPA 2003 s 338, provides relief where travel is undertaken for necessary attendance at a workplace in the performance of the employment duties, provided the journey does not constitute ordinary commuting.

In practice, it is the interaction between workplace categorisation and ordinary commuting that gives rise to most difficulties. Travel that qualifies as business travel may generally be reimbursed free of tax and NIC, whereas ordinary commuting cannot.

Workplace change and travel relief

Before introducing or modifying arrangements such as homeworking, hybrid working, regional office attendance, co-working facilities, client-site working or employee relocations, employers should consider whether the arrangements could alter employees' workplace categorisation for tax purposes.

In many cases, employees will continue to have a permanent workplace at their employer's premises even where they undertake some duties elsewhere. As a consequence, travel that may appear to qualify for relief may in fact constitute ordinary commuting.

Travel and subsistence consequences should therefore be assessed when workplace changes are designed and kept under review as working patterns evolve. Attempting to address the tax implications after arrangements have become established can be considerably more difficult and may reveal historic compliance failures.

The tax treatment of subsistence generally follows that of the associated travel. Where travel qualifies for tax relief, associated subsistence expenditure will usually qualify too, subject to the normal considerations regarding reasonableness, dual-purpose expenditure, scale-rate arrangements and round-sum allowances.

Qualifying business expenses can generally be reimbursed without reporting them to HMRC under the statutory exemption. Employers must, however, ensure that payments satisfy the relevant conditions and should be able to demonstrate that appropriate policies, governance arrangements and internal controls support the treatment adopted.

Where relief is not available, employers may be required to process

payments through payroll or account for the benefit through the benefits regime. With mandatory payrolling of benefits from April 2027, identifying the correct treatment when expenses are incurred and reimbursed will become increasingly important.

Workplace status and hybrid working

The concepts of permanent and temporary workplaces and ordinary commuting were considered in detail by Susan Ball and Lee Knight in *Tax Adviser* in June 2022 ('The temporary workplace: applying the intention or expectation test'). The growth of hybrid working has since continued to raise questions about how those principles apply in practice.

The fact that an employee performs duties from home does not, of itself, mean that the home constitutes a workplace for tax purposes, nor does it automatically convert home-to-office travel into business travel.

HMRC's long-established view is that where suitable facilities are available at the employer's premises and homeworking is undertaken wholly or partly as a matter of personal choice, travel between home and the employer's premises will generally constitute taxable ordinary commuting.

There are circumstances in which a home may constitute a workplace for tax purposes, depending on the contractual arrangements and practical requirements of the employment. The distinction between duties being performed at home and the home itself qualifying as a workplace remains critical.

A common misconception is that regular homeworking automatically changes the nature of travel to the employer's premises. In many cases, it does not. Employers should therefore exercise caution before reimbursing home-to-office travel free of tax and NIC solely because hybrid working arrangements are in place.

Workplace status in the digital age

Whatever workplace arrangements are adopted, employers should ensure that they are appropriately documented. Employment contracts, flexible working agreements and internal policies should accurately reflect the intended arrangements and be reviewed whenever working practices change.

The issue extends beyond HMRC compliance activity. Employment tax compliance is routinely considered during mergers, acquisitions, business reorganisations and investment transactions. Travel and subsistence arrangements can attract particular attention where workplace categorisation has not been reviewed for some time or actual working practices differ from documented arrangements.

Employers should also ensure that actual attendance patterns remain consistent with the assumptions underpinning workplace determinations. This is becoming increasingly important as organisations make greater use of building access systems, desk-booking platforms, travel and expense management systems, workforce planning tools and attendance monitoring systems.

Data analytics and artificial intelligence can help employers use this workforce data to identify attendance patterns that may require further review under the workplace rules. For example, analytical tools may identify employees who regularly attend the same location, exceed the 40% attendance threshold, continue assignments beyond 24 months or repeatedly travel to locations previously treated as temporary workplaces.

Used effectively, these tools can help organisations to move from reactive compliance towards ongoing monitoring, with workplace determinations reviewed as working patterns evolve. However, technology can only identify potential risk indicators: workplace status ultimately remains a matter of applying the legislation to the facts and circumstances of the individual case.

What the courts have said

The following cases illustrate how the courts have applied the travel and workplace rules to different working arrangements. They reinforce the importance of applying the legislation to the underlying facts rather than simply relying on how arrangements are described, particularly for employers with home-based, project-based or temporary workers, or employees working across multiple locations.

Homeworking and commuting

In *Kirkwood v Evans* [2002] EWHC 30, Mr Evans worked from home for four days a week under a voluntary homeworking scheme and attended his employer's Leeds office on the fifth. Although his home was also a workplace, the Leeds office remained a permanent workplace and his journeys there constituted ordinary commuting.

The case remains particularly relevant to hybrid working: regular homeworking does not, by itself, turn travel between home and an employer's permanent workplace into business travel.

Successive assignments

In *Mainpay Ltd v HMRC* [2025] EWCA Civ 1290, Mainpay, an umbrella company, engaged temporary workers who undertook assignments principally in the education, health and social care sectors. Mainpay argued that the assignments formed part of a single employment, so that the locations at which the workers carried them out could be temporary workplaces.

The Court of Appeal dismissed Mainpay's appeal, holding that the successive assignments did not constitute a single employment for these purposes. Each assignment was therefore a separate employment and the location at which it was carried out was a permanent workplace. The associated subsistence expenses were not deductible.

Overarching employment

In *Exchequer Solutions Ltd v HMRC* [2024] UKUT 25 (TCC), an umbrella company employing construction workers argued that successive assignments were covered by an overarching employment contract, so that the different construction sites were temporary workplaces.

The Upper Tribunal upheld the finding that there was insufficient mutuality of obligation between assignments to establish an overarching employment contract. Each assignment was therefore a separate employment and each site a permanent workplace, making reimbursed home-to-site travel ordinary commuting and subject to PAYE and NIC.

Mandatory hotel stays

In *HMRC v British Airways plc* [2026] UKUT 366 (TCC), cabin crew undertaking 'back-to-back' flight rotations were required to stay in hotel accommodation at Heathrow between two linked return trips. The stay was compulsory, reflecting aviation safety requirements and the contractual arrangements governing their employment.

The Upper Tribunal dismissed HMRC's appeal, holding that the entire rotation constituted a continuing journey in the performance of the crew's duties. The hotel costs were therefore deductible under ITEPA 2003 s 337 as travel expenses necessarily incurred in performing those duties. As a result, the accommodation did not give rise to an income tax or Class 1A NIC charge.

Time for wider reform?

Although the core travel and subsistence rules have remained largely unchanged, there have been continuing calls for reform. Professional bodies and employers have questioned whether some approved rates and thresholds still adequately reflect modern costs and

working arrangements. The Budget saw announcement on changes to the 25p mileage rate above 10,000 business from April 2027 and changes to the Benchmark Scale Rates (BSR) of £20 for travel over five hours, £60 over 10 hours and £75 over 24 hours, from April 2028. The Overseas Scale Rates will be simplified replacing the 200 plus destination-specific rates with a simplified tiered approach that links to the updated BSR.

There is also a broader question about whether the travel and subsistence regime is aligned with contemporary working practices, including differences in treatment between expenses reimbursed by employers and those paid directly by employees.

It is more than 25 years since the underlying legislative concepts were substantially recast, and more than 10 years since the Office of Tax Simplification reviewed employee benefits and expenses in 2014. This was followed by a government consultation in 2015 and a response in 2016. With working practices having evolved considerably since then, there may now be a case for reconsidering how the rules could be modernised and simplified.

In conclusion

The principal risk for employers does not generally arise from uncertainty in the legislation itself, but from failing to recognise when changing working practices alter the application of the workplace rules. Hybrid working, regional office structures, client-site deployments and workforce mobility all require careful consideration if expenses are to be treated correctly.

Greater access to workforce data and increasingly sophisticated analytical tools can also help employers identify potential compliance risks more readily. Where relevant, organisations should consider the implications of the Uncertain Tax Treatment (UTT) rules and Senior Accounting Officer (SAO) obligations, particularly where travel and subsistence processes form part of wider financial governance frameworks.

Employers should therefore build travel and subsistence considerations into workplace-change programmes and keep workplace categorisation, expense policies and working patterns under review. The key is to assess the employment tax consequences before changes become established and to monitor arrangements as they evolve, rather than attempting to address problems retrospectively.



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Power dressing down
The penalty principle

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We return to the *ScottishPower* case and the question of how the tax rules apply to regulatory penalties imposed on traders.

by Keith Gordon

In April 2025, I wrote about the Court of Appeal's decision in *ScottishPower (SCPL) Limited v HMRC* [2025] EWCA Civ 3, a case that revisited the House of Lords' decision in *McKnight v Sheppard* [1999] 1 WLR 1333. At the heart of that dispute was a series of compensation payments made by Scottish Power in accordance with settlement agreements with the energy regulator. Although the payments had been made in circumstances where substantial penalties might otherwise have been imposed, the Court of Appeal concluded that they were not themselves penalties and should therefore be deductible from the company's profits.

The distinction between penalties and non-penalties was considered to be critical. It has long been assumed that traders cannot treat the cost of penalties as an allowable deduction from their trading profits, even when the penalties are incurred in the course of the trader's trade. However, the Court of Appeal decided that the principle should be given a narrow application: in the present case, the sums expended were designed to be compensatory in nature and were expressly charged to Scottish Power in place of penalties.

Previously, the question of the deductibility of penalties had been framed in terms of whether the amount was incurred wholly and exclusively for the purposes of the trade, the test for which is set out in Corporation Tax Act (CTA) 2009 s 54. However, the Court of Appeal considered that the restriction on penalties was not a consequence of the wholly and exclusively rule at all but rather a long-established principle derived from old case law.

The court considered that this principle was now preserved in the statute by CTA 2009 s 46(1) which, although requiring tax profits to be calculated in the first instance in accordance with generally accepted accounting practice (GAAP), permits a departure from GAAP where an 'adjustment is required … by law'.

Key Points

What is the issue?
The Supreme Court has overturned the Court of Appeal's decision in *ScottishPower*, ruling that payments made to avoid regulatory penalties were not deductible because they failed the 'wholly and exclusively' test.

What does it mean to me?
Advisers must consider the substance of payments made following regulatory investigations, rather than relying on their legal description. Payments presented as compensation may still be non-deductible if they effectively substitute for penalties.

What can I take away?
The judgment clarifies the legal basis for denying deductions for penalties, but uncertainty remains over contractual charges and other payments. Further litigation may be needed to establish where the boundaries lie.

This was a rather unorthodox route to denying traders a deduction for penalties, given that the calculation of a tax liability is usually determined wholly by reference to the statutory code rather than extra-statutory principles. The Court of Appeal therefore considered that the scope of the principle should be kept narrow. As a result, something that was not actually a penalty should not be denied a deduction if it would otherwise have been available.

HMRC appealed against the decision to the Supreme Court, whose judgment

was handed down on 21 October 2026 in *ScottishPower (SCPL) Limited v HMRC* [2026] UKSC 35.

The facts of the case

The facts were described in my earlier article and can therefore be summarised briefly.

Following a number of investigations by the Gas and Electricity Markets Authority (GEMA) and Ofgem, ScottishPower Energy Retail Limited entered into four settlement agreements concerning matters such as mis-selling, complaints handling, pricing practices and failures to meet energy-saving obligations.

Under those settlements, Scottish Power agreed to make payments worth approximately £28 million to consumers, charities and other beneficiaries. In each case, GEMA imposed only a nominal penalty of £1. However, the decision notices made clear that substantially larger penalties would otherwise have been imposed and that the payments formed part of the settlement arrangements.

Scottish Power claimed tax deductions for the payments. HMRC sought to add back the amounts deducted.

The First-tier Tribunal largely sided with HMRC, although it allowed relief for one element of the payments which it considered genuinely compensatory. The Upper Tribunal reversed that concession and concluded that none of the payments was deductible. The Court of Appeal then allowed Scottish Power's appeal and held that all of the payments were deductible (bar the nominal £1 penalty itself). HMRC therefore appealed to the Supreme Court.

The Supreme Court's decision

The case came before Lord Reed, Lord Stephens, Lady Rose, Lady Simler and Lord Doherty. The joint judgment was given by Lady Rose and Lord Doherty.

Like the Court of Appeal, the Supreme Court identified a number of key cases in which the principle concerning the deductibility of penalties was developed or applied. In addition to *McKnight* itself, those cases included:

- *Strong & Co of Romsey v Woodifield* [1906] AC 448, 5 TC 215: A brewery company was denied a deduction for the damages it had paid to a customer who had been injured by a falling chimney.
- *Inland Revenue Commissioners v Alexander von Glehn & Co Ltd* [1920] 2 KB 553: A company was denied the costs of the penalties it had incurred for exporting goods to Russia without making the necessary declaration as to the ultimate destination of the goods.
- The Australian case of *Herald and Weekly Times v Federal Commission of Taxation* (1932) 48 CLR 113: A newspaper publisher was entitled to a deduction for the damages it had paid following a libel claim.
- *G4S Cash Solutions (UK) Ltd v HMRC* [2016] UKFTT 239 (TC): This held that parking fines are not deductible from a security and delivery company's profits even though they were an almost inevitable hazard of its trade.
- *McLaren Racing Ltd v HMRC* [2014] UKUT 269 (TCC): The Formula 1 racing company was prevented from claiming a deduction for the fines it had been charged by the Formula 1 authorities.

Despite considering the same materials, the Supreme Court disagreed with the Court of Appeal's analysis of the nature of penalties. It considered that the question of deductibility was to be assessed by reference to the 'wholly and exclusively' test itself. It then concluded that penalties are non-deductible because they are not incurred for the purposes of the trade. Their purpose, the Supreme Court held, is fundamentally different. Penalties are imposed as a punishment for wrongdoing and are incurred because the taxpayer has breached legal obligations. As such, the Supreme Court held that penalties fail the wholly and exclusively test.

The court therefore rejected the Court of Appeal's suggestion that there was a separate judge-made adjustment operating outside the wholly and exclusively rule. In the Supreme Court's view, the explanation lies wholly within the trading deduction code itself.

Having reached that conclusion, the court then considered the nature of the redress payments made by Scottish Power.

> **The court rejected Scottish Power's characterisation of the payments as voluntary.**

The court rejected Scottish Power's characterisation of the payments as voluntary. While it was true that the company was not legally compelled to enter into the settlement agreements, it was clear that, if the settlements had not been agreed, substantial penalties would have followed. Indeed, the First-tier Tribunal had found that Scottish Power was effectively paying an amount



of the same order as the penalties that would otherwise have been imposed.

The court therefore considered the payments to be sufficiently akin to penalties that the same analysis should apply. Looking at the substance of the arrangements rather than their form, the payments had been made under the threat of regulatory sanctions, were linked directly to admitted breaches and were negotiated as part of settlements designed to avoid larger penalties. They were therefore not incurred for the purposes of the trade.

The appeal was accordingly allowed and the Upper Tribunal's decision restored.

Commentary

Keen readers will recall that in my previous article I had commended the Court of Appeal's decision, although I described the route taken by the court to reach that decision as 'interesting'. The Supreme Court has clearly not agreed with the Court of Appeal's methodology (perhaps agreeing that it was too 'interesting'), nor with my endorsement of its decision.

The difficulty in all these cases (and the reason for the contrasting analyses by the different courts) arises from the fact that there is, with limited exceptions, no express rule in the tax code preventing a deduction for a penalty incurred by a trader. Furthermore, there are specific statutory provisions denying deductions for certain penalties. For example, Corporation Tax Act 2009 s 1303(1) expressly prohibits deductions for the penalties and interest listed in the table



in sub-section (2). If there were a rule of principle that penalties are not tax-deductible, that section would be otiose.

Of course, it can be said that penalties are not incurred **for the purposes** of the trade but are rather incurred as a consequence of the trade being carried on. On that basis, it could be said that they should not qualify for a deduction. However, insisting upon a literal approach to the wholly and exclusively rule in the case of every item of expenditure would depart from common practice and common sense. For example, a trader's hotel costs when away from home are generally incurred to give the trader somewhere comfortable to rest. That is clearly not wholly or exclusively for the purposes of the trade (in the same way as an individual's clothes are rarely acquired wholly and exclusively for the purposes of a trade). However, any attempt by HMRC to deny a trader a deduction for hotel costs in such cases is likely to be given short shrift (see, for example, the Upper Tribunal's decision in the case of *HMRC v Healy* [2013] UKUT 337 (TCC)).

As this particular case has shown, whenever attempts are made to justify the principle that penalties are not deductible, articulating the rationale for the principle can cause some confusion. That confusion can, in my view, be best illustrated by contrasting the *Herald* and *McLaren* decisions. In the former, libelling members of the public was considered to be an ordinary hazard of publishing a newspaper; whereas the latter concerns a company that breached the rules of its sport's governing body. Unlike parking fines, for example, where the relationship between the trader and the enforcement authority is governed by statute, McLaren's relationship with the governing body of its sport was purely contractual.

I have no doubt that academics could legitimately revisit these discussions and reach their own different conclusions. However, pending a significant shift in academic thinking (which I suspect is unlikely to be forthcoming in the near future), we at last have a clear determination of the principle: penalties are not tax deductible because, in the case of traders, they do not satisfy the 'wholly and exclusively for the purposes of the trade' test.

That certainty (in the meantime) should be welcomed.

Of course, focus will now turn to where the boundary lies between payments that do and do not fall within the restriction. For example, in a construction contract, contractors may well be subject to penalties if certain milestones in the project are not met. These are entirely contractual in nature (and the Supreme Court's decision could be interpreted as suggesting that contractual charges are not disallowable penalties).

However, the *McLaren* case was also based on a contractual relationship. McLaren was fined by its governing body rather than a body exercising statutory powers. Given the significant financial penalties that are often imposed on organisations by similar bodies, I suspect that it will not be long before the correctness of the *McLaren* decision is considered afresh. On the other hand, it cannot be denied that McLaren was being punished by its governing body; penalty charges in a construction contract might be considered to be of a different nature. If so, there is clearly a boundary whose precise location may need to be determined by further case law.

I also see potential arguments about the distinction between penalties incurred for overstaying in different types of off-street car parks; those arguments could well mirror much VAT litigation. Many private car park operators might charge a modest fee for the first couple of hours (say) but then impose a hefty 'penalty' rate for longer stays. The relationship between the operator and the user is entirely contractual and the operator is not operating under any statutory powers. The inference to be drawn from the Supreme Court's decision is that such higher fees are not precluded from being deductible under the wholly and exclusively rule. If that is the case, should the position differ if the off-street car park is owned and operated by a local authority?

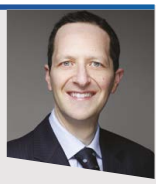
Another possibility is that a 50p hourly rate increasing to £10 after two hours will not be considered to be penal, whereas a much larger charge (say £100) will be. Will the terminology used by the car park operator be relevant or even determinative? And would the private use of clamps make a release charge a penalty? Will the ultimate arbiter be the tribunal, potentially leading to different outcomes before different constitutions of the tribunal?

One further takeaway point from the Supreme Court's decision is that it did not adopt the approach taken by the lower court, under which the non-deductibility of penalties was treated as an adjustment to a trader's profits that was 'required by law'. There is therefore, to the best of my knowledge, no extant authority confirming that a particular departure from GAAP may be permitted where it is not expressly provided for in statute. Prior to 2008, HMRC sometimes suggested that adjustments under the rule in *Sharkey v Wernher* [1956] AC 58 (requiring appropriations from a trader's own stock to be effected at market value) could be justified on that basis. However, in anticipation of many proposed challenges to HMRC's position, the rule was formally codified, meaning that the point was never considered by the courts.

What to do next

The key lesson is a practical one. When analysing payments made following regulatory investigations, advisers should not focus exclusively on the legal label attached to the payment. If a payment forms part of a settlement reached in circumstances where penalties would otherwise have been imposed, the courts may be prepared to regard it as sufficiently akin to a penalty for a tax deduction to be denied.

However, the precise boundary between deductible and non-deductible payments remains uncertain and will need to be clarified in subsequent cases.



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Natural capital
New value, new tax questions

Natural capital schemes offer landowners new revenue opportunities, but their varied tax treatment and long-term commitments require careful consideration and planning.

by Will Leonard

Key Points

What is the issue?
Natural capital schemes can generate valuable new income for landowners, but the tax treatment varies according to the scheme, arrangements and circumstances involved.

What does it mean to me?
Advisers must consider whether receipts are income or capital, how different credits are taxed, and the implications for purchasers and landowners.

What can I take away?
Natural capital can offer attractive diversification opportunities, but long-term land commitments, differing tax treatments and potential effects on future use require careful planning.

The term 'natural capital' was first coined in 1973 by E F Schumacher in his book *Small Is Beautiful*. There are various definitions, but broadly, natural capital comprises the elements of nature and the environment that have value to society, including the living and non-living aspects of ecosystems.

In recent years, the government has increasingly sought to protect and enhance natural capital, including through schemes that give an economic value to environmental improvements. The Natural Capital Committee was established as an independent advisory body to the government in 2012, with many of its functions subsequently taken on by the Office for Environmental Protection.

Ecosystem services

Four schemes are particularly relevant to landowners and developers. Explained below, they provide mechanisms through which environmental improvements can generate credits with a financial value. These arrangements form part of what the government describes as 'ecosystem services'.

Biodiversity Net Gain credits

In England, property developers must generally deliver a biodiversity net gain of 10% when developing land. Biodiversity is measured by reference to the availability and quality of habitats for wildlife. A baseline assessment is taken first, against which the required uplift is measured.

Developers can achieve the required biodiversity net gain by creating biodiversity on-site or off-site, including on other land they own, or by purchasing biodiversity credits from landowners. If these options are insufficient, they can purchase statutory biodiversity credits from the government.

Nutrient neutrality

New developments providing overnight accommodation in certain river catchments in England may only proceed if they will not cause additional nutrient pollution through excess nitrogen or phosphorus entering waterways. Developers can incorporate mitigation into their development plans, arrange off-site mitigation with landowners or others, or purchase nutrient credits from a mitigation scheme within the same river catchment.

Landowners can create nutrient credits by changing the use of their land or improving drainage and sewerage, and then sell the resulting credits to developers operating within the same catchment.

The rules are due to change under the Planning and Infrastructure Act 2025. The Act came into force in December 2025 and, at the time of writing, Natural England is consulting on the implementation of the new regime and its implications for nutrient neutrality.

Woodland and peatland carbon credits

Under the voluntary Woodland Carbon Code and Peatland Code, which operate across the UK, landowners can generate carbon credits by planting new woodland or restoring degraded peatland. These credits can be sold to businesses or other organisations seeking to offset carbon emissions or support environmental projects. Many businesses choose to become 'carbon neutral' for philanthropic or public relations purposes.

The two schemes operate differently. Woodland creation actively removes carbon dioxide from the atmosphere, while peatland restoration reduces emissions that would otherwise arise from degraded peat.

Opportunities for landowners

Taken together, the natural capital schemes described above offer landowners opportunities to generate revenue from their land.

Some credits are purchased by developers or businesses to meet legal or planning requirements, while others are bought voluntarily. For landowners, this can provide a useful source of diversification, particularly at a time when farming margins are under pressure.

It is sometimes possible to generate more than one type of credit from the same plot of land, known as 'stacking'. The key consideration for stacking is 'additionality': the same environmental benefit cannot be counted twice. For example, reducing the use of fertilisers and planting trees on the same plot of land would produce separate environmental benefits. Reducing fertiliser use could decrease nutrient run-off and generate nutrient credits, while planting trees could sequester carbon and could generate woodland carbon credits.

Where stacking generates more than one type of credit or unit, the tax treatment may differ for each one.

Tax treatment

After a period of uncertainty, HMRC published guidance on 14 May 2026 on the tax treatment of ecosystem services (see tinyurl.com/mpr87t65). Although the guidance represents HMRC's interpretation rather than the law, it provides welcome clarity in an area where the tax treatment has been uncertain.

The following is necessarily a high-level summary. The tax treatment of each project will depend on its particular facts and circumstances, including the use of land, the ownership structure and the contractual arrangements.

Accounting treatment

In general, the tax treatment of natural capital receipts should follow the accounting treatment. Where a landowner uses the cash basis, a receipt should be brought into account when it is received. Otherwise, Generally Accepted Accounting Practice (GAAP) applies, which may result in a receipt being recognised immediately or spread over the life of the agreement. Further guidance is expected from the ICAEW in 2027.

Income or capital?

A key issue is whether receipts from natural capital schemes should be treated as income or capital.

HMRC's view is that receipts are normally trading income. However, capital treatment may be arguable in some circumstances. For example, a large upfront payment could represent consideration for a restrictive covenant over the land, or compensation for the impairment or loss of use of an asset, such as where the land is permanently sterilised and taken out of productive use.

The period over which the ecosystem service must be maintained is also relevant to this distinction, although it will not be conclusive.

The distinction can have significant tax consequences. A capital receipt may be subject to capital gains tax of 24%, rather than income tax of up to 45% (or an effective rate of 60% if it pushes the taxpayer's income over £100,000). Business Asset Disposal Relief or rollover relief may also be available, depending on the circumstances.

However, income treatment can also have advantages where an upfront receipt is recognised over the life of the agreement:

- Expenditure incurred in maintaining the scheme can be offset each year against the apportioned income. By contrast, if the payment is taxed as a single upfront capital receipt, tax relief may not be available for subsequent expenditure.
- Part of the tax liability is effectively deferred because only a proportion of the receipt is recognised each year.
- Reporting income annually also supports the argument that the business is trading, which can be relevant to matters including loss relief and Balfour planning for inheritance tax purposes.

Tax treatment for landowners

Income and corporation tax

For Biodiversity Net Gain, nutrient credits and the Peatland Code, receipts will normally be treated as trading income.

Where the landowner continues to farm the land or the land generating the credits does not form a substantial part of the overall farming trade, the receipts may be treated as farming income. In that case, the usual tax rules applying to farming, including averaging, will apply.

Where the arrangements relate to a property business, the treatment will depend on the rights granted. If a landowner lets land to an intermediary that generates the credits, the receipts will be property income. If the intermediary does not acquire an interest in the land, payments to the landowner will instead be trading income.

PRACTICAL CONSIDERATIONS

Natural capital schemes can involve significant long-term commitments. Land may need to be maintained for at least 30 years for Biodiversity Net Gain units and potentially 75 years or more for nutrient credits. Before entering into an agreement, landowners should consider:

- **Impact on land values:** The restrictions placed on the land may affect its value, although valuers report differing views on the likely impact.
- **Financing and borrowing:** Any reduction in the value of the land, or restrictions associated with the scheme, may affect the availability or amount of secured borrowing.
- **Exit and future sale:** A future purchaser will inherit responsibility for complying with the scheme, potentially affecting the landowner's exit options.
- **Future use of the land:** Participation may restrict future farming or development opportunities.
- **Succession and inheritance planning:** The long-term nature of the commitments may have implications for future generations who inherit the land.
- **Future need for credits:** A landowner should consider whether they may need credits themselves in future. For example, a farmer required to sequester carbon under an agreement to supply produce to a supermarket could find that, having already sold all the credits they can generate, they have to buy credits back from the market at a higher price.

Expenditure incurred in maintaining the scheme will normally be deductible against the trading or property income, subject to the usual rules, including those for lease premiums and reverse premiums. Capital allowances may also be available for qualifying plant and machinery.

For corporation tax purposes, receipts from natural capital schemes will normally be treated as trading income. Where the receipts arise from a property business, they will instead be treated as property income.

Woodland Carbon Code

Different rules can apply to woodland. Income from commercial woodlands is exempt from income tax, although expenditure relating to that exempt income is consequently not deductible. Otherwise, the receipts will generally be treated as trading income. Where an intermediary acquires an interest in the land and generates the credits, payments made by the intermediary to the landowner will be treated as rent.

Capital gains tax

As discussed above, credits may exceptionally be treated as capital disposals, in which case the normal capital gains tax rules will apply. Disposals of the underlying land are also subject to the usual rules, with reliefs including Business Asset Disposal Relief, holdover relief and rollover relief potentially available depending on the circumstances.

Inheritance tax

Land subject to an environmental agreement may qualify for agricultural property relief under the Inheritance Tax Act (IHTA) 1984 s 124C. Business property relief may also be available, subject to the usual conditions. Entering into an environmental management agreement should not, in itself, prevent land from qualifying for conditional exemption from inheritance tax.

Special rules apply where the landowner is a charity. It will normally benefit from the exemption for profits of a charitable trade, provided the activity falls within the charity's primary purpose. This may be the case, for example, where its charitable purposes include the preservation of land.

Tax treatment for purchasers

The tax treatment of natural capital credits for purchasers will depend on why they are acquired and whether they are held for the purposes of a trade or as a capital asset. Credits purchased wholly and exclusively for the purposes of a trade will be an allowable expense. Credits purchased for land held on trading account will be deductible for trading income purposes; otherwise, they will be treated as capital expenditure.

Property developers

Income tax: Expenditure on Biodiversity Net Gain or nutrient credits is allowable expenditure for property developers. However, where the land is not held on trading account, the expenditure is treated as capital expenditure and is not deductible against trading income.

Capital gains tax: Where the land is not held on trading account, the expenditure is added to the cost of the land and may be allowable if it falls within the requirements of the Taxation of Chargeable Gains Act (TCGA) 1992 s 38. Where the expenditure has been deducted against trading income, it is not also allowable for capital gains tax purposes.

Corporation tax: Expenditure on Biodiversity Net Gain or nutrient credits is deductible against trading income for property developers where the land is held on trading account. Otherwise, it is added to the cost of the land and deductible on disposal.

Voluntary purchase of carbon credits

Income tax: Credits purchased for the purposes of a trade under a legal obligation will be deductible. Other purchases, including those made for ESG or philanthropic reasons, may also be deductible, subject to the wholly and exclusively test and the rules applying to general philanthropic expenditure. If credits purchased for a trade are subsequently sold, the sale proceeds will be treated as trading income. Intermediaries buying and selling carbon credits as a trade will be taxed under the normal trading rules.

Capital gains tax: Credits acquired as a long-term investment will be subject to capital gains tax on disposal.

Corporation tax: Credits acquired as part of a legal obligation will be deductible from trading income. Disposals will either be treated as trading income or subject to the corporation tax rules on chargeable gains.

Indirect taxes

The VAT and stamp duty land tax treatment varies according to the type of credit and the arrangements involved. HMRC has confirmed that the same general principles will apply to similar non-statutory arrangements.

VAT

Biodiversity Net Gain: Sales of statutory biodiversity credits are outside the scope of VAT. Other sales are subject to VAT at the standard rate.

Nutrient credits: Sales of nutrient credits are likely to be subject to VAT.

Woodland and peatland carbon credits: These credits are usually subject to VAT unless they are:

- the first issue of voluntary carbon credits by a public authority;
- voluntary carbon credits held as an investment where there is no economic activity;
- donations made to voluntary carbon credit projects; or
- sales of voluntary carbon credits from self-assessed projects with no independent or third-party verification.

Stamp duty land tax

Payments for ecosystem services are not themselves assessable to stamp duty land tax (SDLT). However, SDLT will apply where the arrangements involve the acquisition of land, the grant of a lease or the creation of a covenant.

In conclusion

Natural capital schemes can provide landowners with an attractive additional income stream while contributing to wider environmental goals. However, their long-term commitments and evolving tax and regulatory treatment mean that landowners should consider both the immediate tax consequences and the longer-term implications for their land before entering into an arrangement.

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Predevelopment expenditure
The cost of uncertainty



The *Ørsted* judgment and the government's subsequent consultation on predevelopment expenditure raise important questions about the availability of capital allowances relief.

by Alun Oliver

The Supreme Court's decision in *Ørsted West of Duddon Sands (UK) Ltd and others v HMRC* [2026] UKSC 12 has raised important questions about the availability of capital allowances on predevelopment expenditure. While the judgment clarified the treatment of certain studies and surveys undertaken before construction, uncertainty remains over other costs associated with major infrastructure projects.

The government's subsequent consultation has provided an opportunity to consider how the rules might be clarified, and to establish a consistent approach for businesses and their advisers. With substantial sums potentially at stake, the treatment of these costs has implications for investment decisions and the preparation of capital allowances claims.

The Ørsted decision

The Ørsted litigation concerned capital allowances claimed on pre-construction expenditure relating to offshore wind farms developed between 2009 and 2014, at a total cost of approximately £2.23 billion. The dispute centred on expenditure on studies and surveys undertaken during the planning and development phases of the projects, including assessments of environmental conditions and potential suitability of the windfarm locations.

Under the Capital Allowances Act (CAA) 2001 s 11(4)(a), qualifying expenditure must be capital expenditure 'on the provision of plant or machinery'. HMRC accepted that the wind farm generation assets constituted plant, but challenged whether the costs of the preparatory studies and surveys were sufficiently closely connected with their provision to qualify for relief.

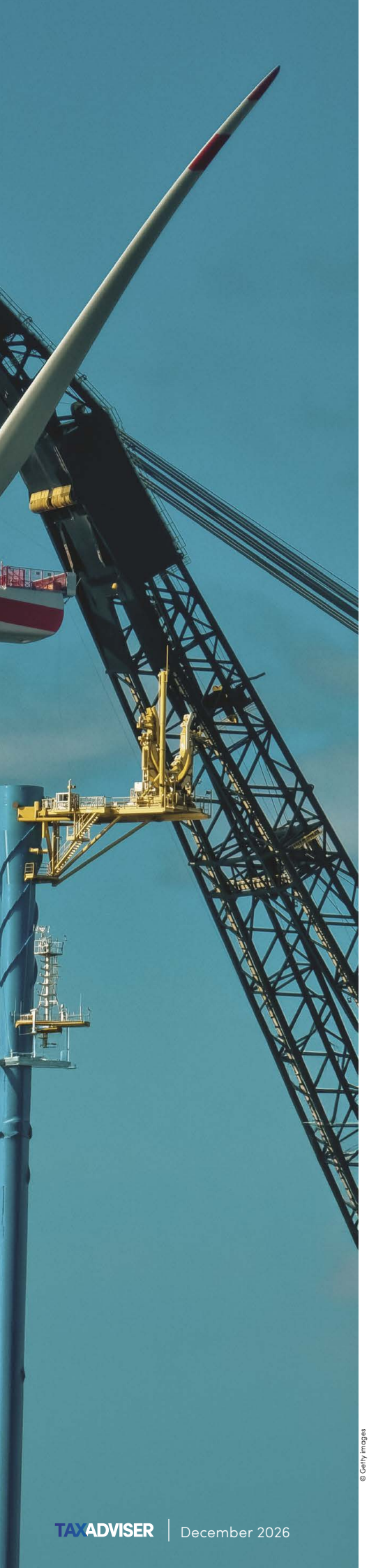
The case progressed through the tribunals and the Court of Appeal, which found in Ørsted's favour, before reaching the Supreme Court in February 2026. In its judgment delivered in April, the Supreme Court unanimously allowed HMRC's appeal.

Key Points

What is the issue?
The Supreme Court's decision in *Ørsted* has clarified the treatment of certain predevelopment costs for capital allowances purposes, but uncertainty remains over design, engineering and other expenditure associated with major infrastructure projects.

What does it mean to me?
Advisers preparing capital allowances claims must consider how the judgment affects qualifying expenditure, particularly on complex projects involving substantial early-stage costs, and the potential implications of increased HMRC scrutiny.

What can I take away?
The government's consultation may lead to clearer guidance or legislative changes. Meanwhile, advisers should carefully identify, document and apportion predevelopment costs, while considering the potential time and expense of HMRC reviews.



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Lady Rose, supported by the other four judges, concluded that the statutory wording required a close connection between the expenditure and the provision of the plant. Although the studies and surveys informed decisions about the design and construction of the wind farms, their costs were not sufficiently closely connected with the provision of the assets themselves to qualify for capital allowances. The fact that expenditure was necessary for a project to proceed did not automatically make it qualifying expenditure.

The judgment clarified the treatment of the disputed studies and surveys, but did not establish a comprehensive test for every category of predevelopment expenditure. In my view, the precise location of the dividing line between eligible and ineligible costs remains unclear, particularly in relation to design and engineering expenditure. These unresolved questions were central to the government's subsequent consultation.

Government consultation

The consultation ran between 13 July and 21 September 2026. HM Treasury emphasised the importance of capital allowances in encouraging business investment, reaffirming the government's commitment to permanent full expensing, the £1 million annual investment allowance and other fundamental features of the capital allowances system for the duration of this Parliament. However, without certainty over the availability of relief, investors may be less inclined to undertake major projects.

According to the government's summary of responses, respondents generally considered that the April 2026 judgment in *Ørsted* had clarified the treatment of the specific studies and surveys examined by the Supreme Court. However, uncertainty remained over other expenditure, particularly design and engineering costs, professional fees and expenditure serving more than one purpose.

I question whether this accurately reflects the balance of opinion among respondents. In the interests of transparency, the government should provide figures to support its conclusions. With 47 organisations identified as respondents, excluding confidential and individual responses, it should be possible to indicate the proportion expressing different views.

The government acknowledged in para 4.15 of its consultation response that stakeholders had consistently identified the treatment of predevelopment costs as an area of uncertainty and administrative burden. It therefore prioritised this area to explore how the 'existing rules could be made clearer and easier to apply without changing their underlying boundaries'. This could involve improvements to guidance, such as clearer principles, more worked examples and more practical approaches to apportionment. HM Treasury also indicated that targeted legislative changes may be necessary to simplify the operation of the rules and support more consistent treatment.

Impact on capital allowance claims

Although the *Ørsted* judgment has prolonged uncertainty, it does not necessarily represent a major concern for all capital allowances claims. Many tax advisers deal with more modest asset expenditure and relatively straightforward construction projects. The consultation responses suggested that predevelopment costs typically represented between 1% and 10% of total project expenditure, with one energy sector respondent citing 5% to 6%. These costs may arise from regulatory requirements or studies undertaken for engineering, environmental, risk-management or financial purposes. Smaller, less complex projects are generally less likely to involve such extensive predevelopment design fees.

In my view, the greatest uncertainty arising from *Ørsted* concerns major infrastructure projects, such as data centres, ports, transport schemes and energy developments, rather than more conventional projects such as production lines, factory extensions, hotels, care homes or car dealerships.

Smaller projects will also incur design fees, but these are often more directly linked to the specific requirements of the site and the construction of the assets, potentially bringing them within the definition of qualifying expenditure on the provision of plant or machinery under CAA 2001 s 11(4)(a).

Should taxpayers and their advisers be concerned? Much will depend on how HMRC applies the judgment when examining individual claims. Amended legislation or clearer guidance would reduce uncertainty, particularly for complex projects involving extensive surveys, engineering studies and design work, where expenditure may be considered 'too remote' from the provision of plant or machinery to be eligible for relief.

The consultation responses also revealed considerable support for extending relief to predevelopment expenditure. Many respondents considered that such costs should qualify, arguing that expenditure required by regulation or essential to responsible

development should not become permanently unrelieved. This suggests that, regardless of the Supreme Court's interpretation of the existing legislation, there is support for adopting a more accommodating approach to relief for these costs.

HMRC guidance and scrutiny

One concern is that the updated HMRC Capital Allowances Manual (CA20070) includes preliminaries (site and project establishment costs) alongside design fees, despite the Supreme Court making it clear in *Ørsted* (para 58) that the treatment of preliminaries was not being challenged.

This raises questions about whether HMRC is reconsidering the approach to fees and preliminaries following the earlier decision in *JD Wetherspoon plc v HMRC* [2012] UKUT 42 (TCC). It could represent a significant change in approach, potentially taking us back to the disputes over fees and preliminaries that characterised capital allowances claims in the 1990s.

Additionally, HMRC has introduced a £5 million threshold for distinguishing between 'small' and 'large' construction projects, with larger projects subject to mandatory Valuation Office scrutiny of apportioned costs.

However, given construction cost inflation of approximately 40% over the past decade, the £5 million threshold may be too low, with £20 million potentially a more appropriate figure. E^3 Consulting has questioned the basis for the threshold, which could result in more claims being referred to the Valuation Office, increasing the time and costs involved in securing relief.

The government's Advance Tax Certainty Service also aims to provide greater certainty for major investment projects by allowing businesses to establish how HMRC will apply tax legislation to specified aspects of a project before significant investment decisions are made. Following limited take-up, the government is reducing the qualifying investment threshold from £1 billion to £300 million to broaden access to the service. While this is a welcome development, clearer guidance on predevelopment expenditure would also help businesses and their advisers assess the availability of capital allowances relief.

In conclusion

The *Ørsted* judgment has provided some clarification on the treatment of predevelopment expenditure, but it has also highlighted the difficulties of distinguishing between costs that qualify for capital allowances and those considered too remote from the provision of plant or machinery. The government's consultation acknowledges these uncertainties, although it remains to be seen how far revised guidance or targeted legislative changes will resolve them.

For advisers, the immediate challenge is to assess how the judgment may affect existing and future claims, particularly where substantial expenditure has been incurred on studies, surveys and design work. Careful identification and apportionment of these costs will remain important, alongside consideration of how HMRC's updated guidance may affect the preparation and scrutiny of claims.

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Key Points

What is the issue?
Private equity investment into a professional services firms operating through an LLP requires a different approach to structuring than a conventional share acquisition. The parties must decide whether to retain the LLP, incorporate the business before investment or adopt a hybrid structure.

What does it mean to me?
The chosen structure affects the taxation of the original members and investors, future profits and the eventual exit. Corporate members and valuable intangible assets can also create unexpected 'dry' tax liabilities on reorganisations or disposal.

What can I take away?
Incorporation provides a more familiar investment platform but can bring significant tax costs and practical consequences. These must be weighed against the continuing complexity and tax risks of retaining the LLP structure.

Private equity investment
LLP or limited company?

Private equity investment in professional services firms requires careful structuring to balance tax risks, commercial flexibility and the eventual exit strategy.

by Steve Round

While we see a range of third parties investing in accountancy, legal and other professional services practices, private equity businesses are leading the charge. These transactions often bring investment in technology, acquisition funding and support for succession. However, they also pose a key structural question that doesn't usually arise when acquiring a company or group: what should happen to the LLP?

An LLP is a body corporate for legal purposes but is generally treated as a partnership for UK direct tax purposes if it carries on a business with a view to profit, so its members are taxed on their shares of profits and gains rather than the LLP itself paying corporation tax.

For chargeable gains, the members of a trading LLP are treated as members of a partnership under the Taxation of Chargeable Gains Act (TCGA) 1992 s 59A, with each member taxed on their share of the gains.

This distinction matters. A private equity investor will generally expect to invest in shares, use acquisition debt at corporate level, introduce management equity and ultimately realise its investment through a share sale. None of these fits naturally with a traditional professional services LLP.

Broadly, there are two choices: retain the LLP and design a corporate structure around it, or transfer the practice to a company before the investor buys in.

Retaining the LLP

The principal attraction of retaining the LLP is continuity and flexibility. The firm may be able to preserve existing client engagements, regulatory arrangements, partnership culture and profit-sharing mechanisms. It may also avoid moving employees, property, licences and contracts into a new operating entity.

As a transparent entity for direct tax purposes, LLP members are taxed on their allocated profits, whether or not they are distributed. Corporate members are generally subject to corporation tax on their allocated shares, calculated under the Corporation Tax Act (CTA) 2009 ss 1259 and 1273. This makes individual

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members' immediate effective tax rates higher than those applying to a company, where corporation tax is paid initially and shareholders are only taxed when value is extracted.

That transparency may suit continuing members, but it can complicate private equity investment. An investor typically invests through a corporate member of the LLP (often via a stack of companies). The LLP agreement must then translate concepts such as preferred returns, leverage and management equity into allocations of profit, capital and voting rights. Vendor reinvestment and 'sweet' equity also need consideration; for example, should these be structured through the LLP, the parent company of the investor stack, or both?

Member status and profit allocation

Those allocations cannot be considered exclusively as commercial matters. The mixed member partnership rules in the Income Tax (Trading and Other Income) Act (ITTOIA) 2005 ss 850C to 850E can reallocate profits attributed to a corporate member where an individual member has the power to enjoy them and the profits allocated to the corporate member are excessive by reference to capital or services provided.

The salaried member rules must also be considered where continuing individuals remain LLP members but their economic and governance arrangements become more employment-like. Under these rules, an LLP member is treated as an employee if three statutory conditions are met. Broadly, these concern whether remuneration is largely fixed rather than linked to the LLP's profits (Condition A), whether the member lacks significant influence over the LLP (Condition B), and whether their capital contribution is less than 25% of their disguised salary (Condition C).

If all three conditions are met, the individual is taxed as an employee for income tax and NIC purposes, rather than as a self-employed LLP member.

Following the Supreme Court decision in *HMRC v BlueCrest Capital Management (UK) LLP* [2026] UKSC 18, and given that a PE investor will often take a material interest, such as control or significant influence over the business, we are seeing increased reliance on ensuring that Condition C is not met. Condition C should be monitored on an ongoing basis, particularly where earnings are volatile or include a performance-related element. For further background on the salaried member rules and the earlier stages of the *BlueCrest* litigation, see 'BlueCrest Capital: salaried member rules for LLPs' (Tax Adviser, April 2025).

Financing and exit

The corporate LLP member is generally treated as holding its share of the LLP's assets, including shares in subsidiary companies.

Depending on the economic rights attaching to the corporate member's interest in those underlying shares, a corporation tax group may therefore be established, for example for loss relief purposes. However, the corporate structure and allocation of those economic rights may result in the corporate member and its parent companies forming a separate corporation tax group from the LLP subsidiary sub-group.

This can limit the ability to offset acquisition financing costs or other losses across the structure and may require the investor to place debt or service functions in carefully selected entities. Transfer pricing, corporate interest restriction and unallowable purpose considerations add further layers of complexity.

Planning for a future exit is another difficulty. The investor is likely to prefer to sell shares in a corporate member or its parent companies rather than an interest in the LLP. However, a buyer will need to understand what that company owns and whether it controls the relevant economic rights under the LLP agreement. Alternatively, the LLP may sell its business and assets. An asset sale can create tax charges for LLP members and require the transfer of contracts, employees, property and regulatory permissions.

Intangible asset risks

There is also a particular risk where the LLP has corporate members and holds valuable goodwill or other intangible assets under the intangible fixed asset (IFA) regime in CTA 2009 Part 8. The IFA regime does not always treat an LLP as transparent in the same way as the chargeable gains regime under TCGA 1992, where the intra-group transfer provisions are more widely drawn for companies in a chargeable gains group.

CTA 2009 s 845 applies market value to certain transfers of IFAs between a company and a related party. Sections 848 and 775 can give priority to tax-neutral treatment for qualifying intra-group transfers. However, s 764 expressly excludes an LLP from the definitions of 'company', 'group' and 'subsidiary' for these purposes. A movement of goodwill between an LLP and a connected company can therefore produce a market value taxable credit without group relief. This can be relevant to transfers of trades and assets into or out of the LLP, as well as sales of an interest in the LLP at member level.

The *Tax Adviser* article, 'An intangible problem', published in November 2021, illustrates this by considering an LLP with a corporate member transferring internally generated goodwill to a subsidiary. Although a comparable chargeable asset might transfer on a no gain/no loss basis under TCGA 1992 s 171, the IFA company group provisions may not accommodate the LLP. CTA 2009 ss 738 and 845 can then require market value treatment and create a 'dry' tax charge.

Retaining the LLP therefore avoids an immediate business migration and may retain the self-employment status members are used to, but does not eliminate risk. It may merely defer a charge until refinancing, integration, group simplification or an exit. Assuming the group increases in value over time, and without careful structuring from the outset, retaining the LLP may simply defer an inevitable and increasing cash tax exposure on the market value of IFAs, such as goodwill, whether or not recognised on its balance sheet.

Incorporating before investment

The alternative is to transfer the LLP's business to a limited company, usually in return for shares. The investor can then subscribe for or acquire shares in a conventional holding company structure.

This well-trodden route has clear commercial advantages. The investor benefits from familiar shareholder rights and can use conventional loan notes, preference shares, ratchets and management incentive arrangements. A corporate group may also provide a clearer platform for acquisitions, financing and exit. A future buyer can acquire shares rather than the underlying practice assets, although regulatory restrictions may still require operating activities to be separated or ringfenced.

Incorporation relief

The tax analysis begins with the transfer of the LLP's business and assets. For individual members, TCGA 1992 s 162 (incorporation relief) may defer gains where a business is transferred as a going concern with all its assets (other than cash if desired) to a company wholly or partly in exchange for shares. The gains are effectively rolled into the base cost of the shares received. However, since 6 April 2026, incorporation relief is not automatic and must be claimed with specified supporting information. Several other aspects also require considerable care:

1. **The whole business must transfer:** Selecting individual assets or leaving material parts of the business in the LLP puts incorporation relief at risk.

Cash may be retained but property, work in progress, subsidiary interests and investments must either be transferred or dealt with before incorporation.

2. **Consideration matters:** Full deferral generally depends on the consideration being shares. Cash, loan notes or a credit to a director's loan account can leave part of the gain immediately chargeable. This may conflict with the members' desire to receive cash before completion or with the investor's preferred debt and equity structure.
3. **Income items need separate treatment:** TCGA 1992 s 162 does not relieve income tax charges arising on trading stock, work in progress or other income items. Transfer values and the application of specific succession or election provisions must be considered separately. It is also necessary to ensure the appropriate recognition of pre-transaction profits and understand the distinction between, and impact of, 'locked box' and cessation or completion accounts.
4. **The identity of members matters:** Incorporation relief is available to a person other than a company. Where the LLP has one or more corporate members, including personal or family holding companies, the interaction between partnership transparency, the capital gains rules and CTA 2009 Part 8 must be analysed separately for each member and asset. A single treatment should not be assumed for all.

Goodwill and BADR

Goodwill is likely to represent a substantial part of the firm's value. The transfer may crystallise gains for individual members, although TCGA 1992 s 162 may defer them if conditions are met. However, the acquiring company may not obtain corporation tax deductions for amortisation. CTA 2009 ss 879A to 879P restrict relief for goodwill and certain associated assets, including customer information and relationships, and unregistered trademarks. The members may therefore recognise a disposal at market value, subject to available deferral reliefs, while the company receives restricted or no relief for the goodwill recognised in the accounts.

Business Asset Disposal Relief (BADR) for the LLP members should not be assumed. A disposal of a business by an individual member can qualify where the relevant conditions have been met for two years. A later disposal of shares in the newly incorporated structure is subject to different conditions, including employment or office-holder status, trading status and the relevant minimum shareholding and economic interest requirements (ordinarily 5%). From 6 April 2026, qualifying gains are taxed at 18%, subject to a £1 million lifetime limit. Incorporation before private equity investment may therefore affect whether LLP members qualify on a later share disposal.

Other taxes and timing

Other taxes and practical matters can be equally important. A transfer of land or property can give rise to stamp duty land tax (SDLT), and the partnership provisions in the Finance Act 2003 Sch 15, as well as general SDLT anti-avoidance provisions, require detailed analysis. Schedule 15 contains a statutory formula rather than a general exemption and can create a charge by reference to a proportion of market value. Relief is available for transfers of property into a newly formed LLP, but not for the opposite movement from an LLP to a company.

A VAT-free transfer of a going concern may be available if the assets transferred are capable of operating as a separate business and the transferee uses them to carry on the same kind of business. Employment taxes, capital allowances, leases, client contracts and regulatory consents must also be addressed.

Timing is therefore critical. Incorporating immediately before a sale may reduce the period available to establish the structure, obtain clearances and resolve valuation issues. It may also mean that the members do not satisfy the two-year conditions for BADR on the new shares. Incorporation should therefore be considered when private equity investment becomes a realistic strategic option, rather than after heads of terms have been signed.

Is incorporation always preferable?

A company is usually easier for a private equity investor to understand, fund and sell. Yet that does not mean incorporation will always produce the better result.

Retaining the LLP may be sensible where regulatory or contractual barriers make a full business transfer impractical or where the continuing members place significant value on the partnership culture, flexibility in rewarding members, the ability to bring people into equity and the associated tax benefits. A hybrid structure may allow the LLP to retain regulated or protected activities while a corporate group carries on other services.

However, hybrid structures demand continuing tax discipline. Profit allocations, financing, transfer pricing, remuneration and movements of intangible assets all require monitoring. The tax cost should therefore be considered over the whole private equity lifecycle, including the future exit, rather than only at entry.

Incorporation may give a cleaner long-term platform, but it can trigger tax, deny expected goodwill deductions and require extensive legal implementation. The availability of TCGA 1992 s 162 relief helps, but it is neither universal nor comprehensive.

Finally, regulatory matters should not be overlooked. Obtaining regulatory approval before a transaction completes can take time, while regulatory requirements may also impose structural limitations. For example, ICAEW requires firms carrying out statutory audit services to be controlled by individuals responsible for the provision of audit services. Pre-sale restructuring may therefore be necessary to ensure that regulatory requirements are met throughout the transaction.

Conclusion

The choice is not simply between an LLP and a company; it is about where complexity should sit. Retaining the LLP can limit immediate disruption but may create continuing friction around investor returns, debt, incentives, restructuring options and exit. Incorporation can simplify the investment structure but brings tax and implementation risks forward.

The correct answer for an LLP depends on the composition of its membership, the history and value of its goodwill, the intended deal consideration, whether a buy-and-build strategy is envisaged and the implications for further acquisitions, property ownership, regulatory requirements and the likely exit route. Those issues should be modelled together, as a tax-efficient entry structure may prove expensive in the long term if it obstructs integration or creates a charge when the investor exits.



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Key Points

What is the issue?
The *Malyk* case highlights the distinction between employment law and tax obligations when employees work overseas. Even where remote working arrangements are contractually sound, employers may face unexpected tax and social security liabilities.

What does it mean to me?
Tax advisers need to consider the potential PAYE, social security and permanent establishment implications of overseas working arrangements, alongside employees' personal tax residence and obligations under relevant double tax treaties.

What can I take away?
Early specialist advice is essential when employers receive overseas working requests. Coordinating tax, social security, immigration and HR advice, alongside clear documentation and communication, can help identify risks before arrangements are approved.

Working across borders

The meaning of 'fully remote'

The *Malyk* case highlights the tax, social security and permanent establishment risks of overseas remote working, emphasising early specialist advice.

by Steph Marsh and Jane Drummond

In the case of *Malyk v Teleperformance Contact Ltd* (Case No. 6018900/2024), an employment tribunal recently upheld the dismissal of an employee who relocated to France despite her employer's concerns about the tax and legal implications of the move. The tribunal found that her 'fully remote' contract did not give her the right to choose which country she worked from.

The case of *Malyk*

Iryna Malyk had worked as a Regional Finance Business Partner for Teleperformance since May 2022. Her contract identified her home office as her principal workplace but did not explicitly prohibit working overseas. Following the closure of the company's Bristol office, she worked entirely from home.

In June 2024, Malyk requested permission to relocate to France, where her husband had secured employment. Her employer refused, citing legal, tax and financial concerns associated with employing someone in France under a UK contract. Malyk maintained that her remote working arrangements entitled her to work from any location.

Despite the refusal, she relocated to France in July 2024 and continued working. She did not conceal her move, believing that she was acting within her contractual rights.

Teleperformance instructed her to return to working in the UK. When she refused, disciplinary proceedings followed, culminating in her dismissal in August 2024 for 'some other substantial reason', rather than gross misconduct.

The tribunal upheld the dismissal. It found that Malyk's contract, considered as a whole, required her to work from her UK home. The tribunal accepted that the employer had legitimate concerns about the tax and legal implications of employing someone in France under a UK contract, as well as the potential additional costs of overseas employment.

The issues to consider

The case highlights the importance of both clear management and thorough contract drafting. However, for tax advisers, it is worth reviewing for a different reason. It is a reminder that employment law and tax considerations are not the same, and that an employer can get one completely right while still facing significant exposure on the other.

The tribunal's finding tells us nothing about what would have happened to the employer's tax and social security position if the contract had permitted overseas working, or if the employer had simply agreed to the move.

A business can have a properly drafted contract, management approval and an employee who has followed all the correct procedures, and still face payroll, social security and corporation tax exposure that it never saw coming. The contractual and tax questions must therefore be considered separately, something that employers may not appreciate when an overseas working request is first raised.

The employer's exposure

Three areas of potential exposure tend to arise together once an employee begins working from another country, and they are worth treating as distinct advice points rather than folding them into a single 'check with HR' conversation.

PAYE and payroll

HMRC's starting position is that an employer may need to continue calculating and deducting PAYE income tax on payments made to an employee working abroad, regardless of where they are based.

National Insurance works differently, with the rules depending on the destination country and the nature and duration of the move. For a posting to a country with no EU, EEA, Swiss or other reciprocal social security agreement with the UK, an employer generally continues to deduct UK Class 1 NICs for the first 52 weeks of a genuinely temporary posting, provided the usual conditions are met, including that the employee was ordinarily resident in the UK before leaving.

That 52-week rule does not generally apply to a move to the EU, the EEA or Switzerland, which are governed instead by separate social security coordination arrangements, discussed below.

Social security coordination

For employees working in an EU member state, the position is governed by the Protocol on Social Security Coordination in the UK-EU Trade and Cooperation Agreement. Where an employer sends an employee on a genuinely temporary posting, the Protocol allows the employee to remain subject to UK National Insurance for up to 24 months, as evidenced by an A1 certificate from HMRC. Separate arrangements, with their own time limits, apply to Switzerland and the EEA states.

These temporary provisions do not apply to a move that is permanent or open-ended from the outset, which is closer to what was happening in *Malyk*.

An employee working regularly across two countries is dealt with under separate multi-state worker rules. These rules are more complex than a single habitual-residence test, taking account of where a substantial proportion of the employee's activity is carried out, alongside other factors relating to the employer and the employee's residence. The position must be assessed against the particular circumstances rather than relying on a general rule of thumb.

Employers may need to seek specialist advice. Getting the certification wrong risks social security liabilities arising in both jurisdictions, which is precisely the situation the employer in *Malyk* was concerned to avoid when it referred to unofficial working.

Permanent establishment

This is the exposure employers are least likely to have considered, and the one with the largest potential downside. A home office used by a single remote employee can, in certain circumstances, create a permanent establishment for the employer in that country, bringing the business within the scope of local corporation tax on profits attributable to that presence.

The OECD's commentary, updated in 2025 to address remote and hybrid working, now considers the extent to which the home is used for the business, generally finding that it does not constitute a fixed place of business where it is used less than half the time over a 12-month period.

Where use exceeds that threshold, the question becomes whether there is a genuine commercial reason for the employee to be working from that country, such as directly engaging with customers, suppliers or associated enterprises there, rather than for reasons of simple personal convenience. However, the assessment remains dependent on the particular circumstances, rather than the threshold operating as a definitive test.

There is also a separate route to permanent establishment exposure through the dependent agent test, which can catch an employee who habitually concludes contracts on the employer's behalf, or who habitually plays the principal role leading to contracts routinely concluded without material modification. This does not depend on a fixed place of business. Permanent establishment risk therefore requires specialist tax advice, rather than being left solely to an employment lawyer or HR team.

The employee's own position

The employee's personal tax position is a separate exposure again, and one that an employer may regard as 'the employee's problem', until it affects payroll, benefits or an indemnity clause. An employee who moves abroad can become tax resident in the new country under its own domestic rules, and may also need to be assessed against the UK's statutory residence test to establish whether UK tax residence has been retained for the relevant tax year.

Where there is a risk of dual residence, the relevant double tax treaty's residence tie-breaker provisions, rather than a simple day-count, will usually determine residence for treaty purposes.

The position depends on the treaty and the particular circumstances, and advisers should resist the temptation to reduce residence to a simple '183 day' rule of thumb test. A separate 183-day test can also appear in the employment income article of some treaties, affecting the taxation of income from short-term overseas work, rather than residence itself. The two should not be conflated.

Where this leaves the advice conversation

The practical difficulty is often one of sequencing, rather than the complexity of any individual issue. An employee typically raises a relocation request with their manager or HR first, which means the conversation starts, and is

sometimes concluded, on employment law terms, long before a tax adviser is involved.

Malyk is a useful illustration of this. The manager who initially tried to explain the position to Malyk referred only to vague 'legal and tax issues' without further detail, and the tribunal noted that providing more specific information earlier would have been helpful. This highlights the importance of involving specialist advisers before responding to a request, rather than after an arrangement has started or a dispute has arisen.

Advisers are well placed to encourage employers to adopt some practical safeguards before any request is agreed. Every request to work from another country should be considered by tax, social security, immigration and HR specialists. In some cases, data protection issues could arise. It is worth establishing early whether the proposed arrangement is genuinely temporary, with a fixed return date, or effectively open-ended, since the two are governed by different rules and carry very different risk profiles.

Local advice in the destination country matters just as much as UK advice, since payroll registration, social security contributions and any permanent establishment exposure may need to be assessed under local law as well as from a UK perspective. Any agreement should be put in writing, including who bears any additional tax or social security costs. Employers should understand that a UK governing-law clause does not necessarily settle the employment law position, since working habitually overseas can still engage mandatory employment protections in the host country.

As *Malyk* illustrates, if a request is refused, the employee should receive a clear explanation of the reasons, rather than a general reference to 'legal and tax issues'.

A client that can point to early, specific advice, properly documented and clearly communicated to the employee is in a considerably stronger position if the arrangement subsequently leads to a dispute or an HMRC enquiry.

In conclusion

Malyk was decided on a question of contract interpretation, and the tribunal's reasoning says nothing directly about the employer's tax liabilities. Nevertheless, the case provides a useful reminder that an employer whose actions are upheld by an employment tribunal can still face unresolved payroll, social security or permanent establishment risks. Bringing tax advice into the conversation when a relocation request is first raised, rather than once a dispute is underway, can help employers identify and address these risks before problems arise.



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Digital services taxes
The permanent interim

Six years on, digital services taxes are becoming increasingly fragmented, creating new compliance challenges for businesses operating across international markets.

by Tiff Guerrier and Liam Smith

Key Points

What is the issue?
Digital services taxes (DSTs) were introduced as interim measures pending global reform. With that reform yet to materialise, they have proliferated and diverged, increasingly shaped by national rules, trade pressures and political negotiations.

What does it mean to me?
Affected businesses face fragmented compliance requirements, unresolved double taxation and increasingly uncertain scope boundaries. As DSTs expand and technology develops, a broader range of businesses may find themselves within scope.

What can I take away?
Businesses should retest the scope of DSTs against current business models, document uncertain positions, review revenue-allocation methods and establish clear processes for monitoring developments and responding to changing policy.

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The expectation when digital services taxes (DSTs) were first introduced was that a multilateral solution under OECD's Pillar One would be reached to reallocate taxing rights between jurisdictions and allow unilateral DSTs to be withdrawn.

In our June 2020 article for Tax Adviser, 'International Ambitions', we cautioned that existing DSTs might be around for longer than first intended. At that time the UK, along with Austria, France, Italy and Turkey, had implemented DSTs, while other jurisdictions were considering their own measures. The OECD was still pursuing an ambitious timetable for reaching consensus, targeting the end of 2020.

Six years later, Pillar One has still not entered into effect and its future remains uncertain. Many jurisdictions nevertheless continue to present DSTs as interim measures, to be withdrawn if an appropriate multilateral solution is implemented.

The question in 2026 is no longer whether DSTs will survive, but what they have become.

Trade and fiscal pressures are pulling jurisdictions in opposite directions, encouraging retrenchment in some countries while prompting expansion elsewhere, particularly as developing economies adopt broader measures that blur the boundaries between DSTs and existing indirect taxes. At the same time, rapid technological change is making the original definitions of taxable activities more difficult to apply in practice. Taken together, these forces suggest that the next debate will be less about repeal than redesign.

Politics and trade

DSTs began as a response to a perceived defect in the international corporate tax framework. They are now increasingly entangled with trade policy, economic security and strategic autonomy.

US objections have hardened. A February 2025 presidential memorandum directed the US Trade Representative to consider renewed or new Section 301 investigations into foreign DSTs and contemplated tariffs and other responsive measures. In June 2026, the US government went further by threatening a 100% tariff on goods from countries imposing DSTs on US companies. The implications are therefore no longer confined to tax policy but extend into market access and trade negotiations. This has brought what was previously a specialist international tax question onto the board agenda.

Whether a country retains or withdraws its tax may now depend as much on trade negotiations as on the merits of its original policy rationale. Canada provides a clear example: in June 2025, after the US suspended trade negotiations over Canada's DST, the Canadian government announced that it would rescind the tax to support the resumption of negotiations, just hours before the first payment deadline. Several taxpayers had already registered and paid the tax, creating complexity for those seeking refunds.

Domestic political incentives, however, point in the other direction. DSTs raise visible revenues and are presented by governments as ensuring that large digital businesses contribute tax in markets where they derive value from users, making withdrawal politically difficult even where external pressure is significant.

In the UK, HM Treasury's Digital Services Tax Review Report (published in November 2025) stated that the DST raised £808 million in 2024-25, compared with £380 million in 2021-22. While the review continues to describe the tax as interim, it notably does not identify a clear timetable for withdrawal, and any withdrawal is likely to be politically sensitive given the UK's current fiscal position.

Even where political or trade pressures lead governments to withdraw a DST, this does not eliminate the underlying policy objectives or fiscal incentives. Governments facing pressure to repeal may therefore look to alternative ways of increasing tax revenues, such as greater enforcement activity and increased scrutiny of cross-border transactions. For taxpayers, repeal might not reduce uncertainty but simply shift it into different areas of the tax system.

Proliferation continues

Political pressure has not, however, produced a consistent retreat from digital taxation. Poland has proposed introducing a DST from 1 January 2027, and Australia has recently introduced a digital advertising levy, illustrating how domestic revenue concerns and political incentives can outweigh the risk of trade retaliation.

National regimes are also being revised: Italy abolished its €5.5 million



domestic revenue threshold, meaning that once the global €750 million threshold is met, a single taxable transaction in Italy could trigger a liability and associated compliance obligations.

At EU level, the debate has re-emerged in the context of financing the 2028-34 Multiannual Financial Framework. A recent European Parliament briefing considers several possibilities, including a temporary EU-wide DST, coordination or replacement of national regimes and a hybrid framework capable of evolving alongside an eventual Pillar One solution (see tinyurl.com/3thj55d8).

The potential revenues for governments are significant. The briefing estimates that an EU digital levy could generate between €20.6 billion and €42.9 billion annually, equivalent to approximately 10% to 22% of today's EU budget.

Around 70% of this estimated base comes from business-to-consumer (B2C) e-commerce, illustrating how far the policy discussion has moved beyond the architecture of the original DST. The Commission's 2018 proposal focused on online advertising, digital intermediation and sales of user-generated data, whereas the 2026 modelling covers a considerably wider range of activities, including B2C e-commerce, cloud services and digital media. However, the briefing uses B2C e-commerce as a proxy because comparable EU-wide information on intermediary-service revenues is unavailable. The modelling should not be read as a settled legislative proposal.

Accordingly, the direction of travel seems not to be towards repeal but towards further expansion and adjustment, shaped by continuing political pressure and the absence of an effective global solution.

Divergence, not convergence

In 2020, we identified material differences between emerging DST regimes. France and Italy broadly followed the EU model, while Turkey's DST was drafted more widely. A group falling outside the UK regime could not assume that it would reach the same conclusion elsewhere.

That divergence has become entrenched. Even within the EU, national regimes differ in rates, thresholds, taxable activities and reporting requirements. The European Parliament briefing concludes that this fragmentation creates legal uncertainty and additional compliance costs for businesses operating across multiple jurisdictions.

The proliferation is also increasingly visible outside the established European regimes. Across Africa, digital businesses may face overlapping VAT, DST and withholding tax regimes, often with broad definitions and low or no registration thresholds. Some Latin American jurisdictions similarly use significant economic presence or source-based rules to tax remote digital activity. These measures are not simply replicas of the early European DSTs. They widen the compliance map and increase the risk that the same revenue is taxed under more than one instrument.

While some regimes apply only to non-resident businesses, others make no distinction based on residence, which can lead domestically focused taxpayers to view the tax as disproportionately burdensome.

DST therefore no longer describes one recognisable tax. It describes a family of revenue-based measures that vary by policy objective, taxable base and target sector.

The receipts remain modest as a share of total tax revenues but are sufficiently material for governments to defend. According to the Parliamentary briefing, France collected approximately €756 million in 2024, equivalent to around 0.9% of its corporation tax receipts, while Italy collected approximately €455 million, equivalent to around 0.8%. The briefing describes revenues from established national DST regimes as relatively stable and manageable to administer, although evidence on longer-term administrative costs remains limited.

Fragmentation is therefore becoming a more established feature of the international tax landscape, rather than a purely transitional issue.

Existing definitions are being tested

The more fundamental challenge is that concepts which appeared reasonably stable in 2019 may no longer effectively describe the digital economy.

The UK tax applies to revenues from social media services, search engines and online marketplaces. The original premise was that these were identifiable categories of activity through which user participation created value. However, AI developments are now testing those boundaries.

A search service may now return a generated answer rather than a list of indexed links, while a conversational interface may retrieve information, synthesise it and complete a task within the same user journey. Depending on the facts, the service could resemble search, content generation, software or intermediation, and its revenues may combine advertising, subscriptions and commissions. This raises a practical question about how existing DST categories should apply to rapidly developing technologies.

At the same time, these categories are reaching beyond the technology companies that dominated the original debate into a much broader range of sectors. In practice, marketplace concepts can extend to hotel franchise

FOUR QUESTIONS FOR TAX FUNCTIONS

With DSTs set to remain for at least the short to medium term, there are four key questions tax functions should consider when seeking to understand the impact of these taxes on their business.

1. **Has a scope assessment been carried out since DSTs were introduced six years ago?**
   Products should be retested as they operate now, including any new features and activities introduced since the previous review.
2. **How are uncertain positions being documented?**
   Businesses should retain evidence supporting their approach to classification and revenue attribution and, where appropriate, consider engaging with tax authorities to obtain greater certainty, particularly if a jurisdiction has specific disclosure requirements for uncertain tax treatments.
3. **Do revenue-allocation methods remain appropriate?**
   Registered groups should test whether their methods still use the most accurate data reasonably available and revisit assumptions and proxies used to allocate revenue, particularly where systems or sourcing rules have changed.
4. **Is there a process for monitoring global developments and engaging with policymakers?**
   Responsibility should be clear for tracking new regimes, thresholds, guidance, trade responses and consultations, and for feeding relevant changes into commercial decision-making.

arrangements where a central platform facilitates bookings between guests and independently operated hotels. DST has also affected the automotive and manufacturing sectors as business models become increasingly digital. Importantly, this expansion is not necessarily driven by changes to the rules themselves. As companies develop new digital revenue streams and place greater emphasis on user participation and data, they may come within the scope of existing DST regimes.

The rules present two related challenges: they can capture activities distant from the original policy target, while their application to emerging technologies remains uncertain.

There has been limited litigation to date, so many questions around the boundaries of taxable activity remain untested. In the UK, HM Treasury's review suggests that compliance issues have arisen mainly from differences in legal interpretation or mistakes, rather than deliberate non-compliance, indicating that future disputes may focus on how existing statutory concepts apply to evolving business models.

Practical consequences

Whether captured by design or through the widening scope of the rules, affected businesses face significant practical challenges in managing DST compliance across jurisdictions.

Data is often the main constraint. Tax authorities generally state that taxpayers are not expected to collect additional information solely for DST purposes, but groups can still struggle to attribute revenue accurately to local users where billing addresses, IP information and contractual records do not align. Where insufficient data is held, reasonable proxies may be required, introducing further judgement and inconsistency across jurisdictions.

The problem of double taxation also remains unsolved. The UK offers a 50% cross-border relief on online marketplace transactions that are subject to a foreign DST. However, this can be difficult to apply in practice because jurisdictions have different rules for locating users. Revenue treated as UK-linked for one regime may therefore not align with the foreign tax base.

Another question for businesses is who ultimately bears the cost of the DST. The UK review records changes to the pricing strategies of some in-scope groups, while the European Parliament briefing identifies possible pass-through via higher prices, commissions and fees. Businesses have been known to pass DST costs to customers not only through general pricing changes but also by itemising the charge separately on invoices. That approach raises commercial, contractual and broader tax questions. The practical challenges of DST therefore extend well beyond the tax function, requiring effective coordination across tax, finance, legal and commercial teams as the policy landscape continues to evolve.

Looking ahead

Pillar One remains stalled. The multilateral convention required to implement Amount A, which would reallocate a share of the profits of the world's largest multinational businesses to the jurisdictions where their customers and users are located, was finalised in 2023. However, this has not entered into force because the necessary political and legislative steps have not been completed.

The UN Framework Convention on International Tax Cooperation now offers a parallel institutional pathway. Negotiations are expected to continue until 2027, including work on a protocol covering income from cross-border services in an increasingly digitalised economy. Its potential reach may be broader than Pillar One, but its eventual effect remains uncertain.

Against this backdrop, DSTs show little sign of disappearing. Instead, they are likely to continue expanding unevenly, while technological change places increasing pressure on existing scope boundaries and strengthens the case for redesign.

In conclusion

In 2020, we asked whether there had ever been a more challenging time for an indirect tax function. Six years later, the challenge is no longer simply keeping pace with change, but navigating regimes that are becoming more fragmented, more politically exposed and less straightforward to apply to evolving business models.

With Pillar One still uncertain, DSTs look increasingly less like interim measures and more like a lasting feature of the international tax landscape. The key question is not when they will disappear, but how businesses should manage them as their scope and strategic significance continue to evolve.



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INHERITANCE TAX



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Ultra-high net worth families
The liquidity challenge

How high net worth and ultra-high net worth families can manage inheritance tax liabilities and fund succession through effective liquidity planning.

by Holly Hill

When significant wealth is tied up in property, private businesses and long-term investments, meeting an inheritance tax liability can present a challenge that extends well beyond calculating the tax due, particularly where liquidity is limited. Effective planning requires advisers to consider where the funds will come from, when they will be needed and how the next generation can inherit wealth without unnecessary disruption.

A family may have considerable wealth on paper, yet relatively little readily available cash. Its assets might include a successful private business, a portfolio of investment properties, a substantial family home or long-term investments. These assets can support wealth across generations, but they cannot always be realised quickly without affecting the family's wider financial or succession plans.

For tax advisers working with high net worth (HNW) and ultra-high net worth (UHNW) clients, this creates an important distinction between having sufficient wealth to meet an inheritance tax liability and having the liquidity to pay it when required.

Key Points

What is the issue?
For HNW and UHNW families, substantial wealth held in businesses, property and investments can create liquidity challenges when inheritance tax becomes payable, particularly following changes to agricultural and business property reliefs.

What does it mean to me?
Tax advisers must consider not only the potential inheritance tax liability but also how it will be funded, taking account of asset ownership, available reliefs, payment deadlines and succession objectives.

What can I take away?
Life insurance, instalment arrangements and other funding options can help families meet inheritance tax liabilities without selling valuable assets. Regular reviews and appropriate trust arrangements are essential to effective succession planning.

The challenge is particularly relevant where families want to preserve a business, retain property or maintain an established investment strategy. Selling assets to meet a tax bill may be possible, but it could undermine wider succession objectives or create pressure at an already difficult time. Liquidity planning should therefore form part of the wider conversation about intergenerational wealth transfer, rather than being left until a liability arises.

Understanding the liquidity gap

Inheritance tax is generally charged at 40% on the taxable portion of an estate above the available nil-rate band, after taking account of applicable exemptions and reliefs. The standard nil-rate band remains £325,000, while the residence nil-rate band can provide a further £175,000 where the relevant conditions

are met. The residence nil-rate band is tapered for estates worth more than £2 million, based on the estate's value before deducting reliefs such as business property relief (BPR) or agricultural property relief (APR). Unused allowances may also be transferred between spouses or civil partners, subject to the rules.

Consider a family whose wealth is concentrated in a trading business, investment property and a diversified portfolio. The business may be profitable, and the property may generate regular rental income, but neither necessarily provides immediate access to the cash needed to settle an estate's tax bill. Extracting funds from the business could affect working capital or trigger additional tax liabilities, while selling investment property may involve lengthy transactions and associated costs.

The timing is important. Under the Inheritance Tax Act (IHTA) 1984 s 226, inheritance tax on a deceased person's estate is generally due by the end of the sixth month after the month of death, with interest arising on amounts paid late. Payment is normally required before probate can be obtained, although qualifying assets may be eligible for payment by instalments over ten years under IHTA 1984 s 227.

This can leave executors needing to arrange substantial funds before the estate administration is complete and before assets can be readily accessed or distributed. HMRC's Direct Payment Scheme allows participating banks and investment providers to transfer funds directly from the deceased's accounts to HMRC before probate, provided sufficient funds are available.

The resulting liquidity gap is not necessarily evidence of poor planning. It may simply reflect the way wealth has accumulated over many years. However, it is a risk that can often be identified and addressed in advance.

The changing inheritance tax landscape

Liquidity planning has become especially relevant as the rules governing inheritance tax reliefs have evolved.

From 6 April 2026, the rules for APR and BPR changed. Under Finance Act 2026 Sch 12, the 100% rate of relief is now subject to a combined £2.5 million allowance for qualifying agricultural and business property, with qualifying value above that allowance generally receiving relief at 50%. Unused allowance may be transferable between spouses or civil partners, potentially increasing the combined allowance to £5 million. This is an allowance for property qualifying for 100% relief, rather than operating as an additional inheritance tax nil-rate band.

These changes make it important for advisers to revisit assumptions that may have underpinned a client's succession plan for years. For qualifying assets exceeding the available allowance, the reduction in relief can produce an effective inheritance tax rate of 20% on the excess value, before taking account of other exemptions and allowances.

Consider an individual whose estate includes shares worth £10 million in a family trading company, a £3 million investment property portfolio and £2 million in other investments. Assuming the shares qualify for BPR and the full £2.5 million allowance is available, the first £2.5 million of shares would receive 100% relief. The remaining £7.5 million would qualify for relief at 50%, leaving £3.75 million potentially subject to inheritance tax. At 40%, this represents £1.5 million of tax attributable to the business shares, before the application of any available nil-rate band.

The wider estate would also generate an inheritance tax liability, but the immediate difficulty could be finding the funds to meet it. Although the family owns assets worth £15 million, much of that wealth may be tied up in the company or investment properties. Funding the tax could therefore require substantial disposals, potentially disrupting the family's longer-term plans.

This does not mean that every affected family will need to sell assets or arrange insurance. The outcome will depend on the composition and ownership of the estate, the reliefs available, any lifetime gifts and the family's wider circumstances. Transferred allowances and the ownership of assets through trusts may also affect the relief available.

Building liquidity into succession planning

A useful starting point is to distinguish between wealth, income and liquidity. Advisers should look beyond the headline estate valuation and consider how much capital could realistically be made available within the relevant timeframe.

A practical liquidity review might include:

- **Cash and readily accessible investments:** What funds are available, who owns them, and how much is already earmarked for other purposes?
- **Business assets:** Could the business provide funds through dividends, borrowing or a disposal of shares without affecting working capital, investment plans or its ability to trade?
- **Property:** Would a sale or refinancing be realistic, particularly where properties are held through companies or other structures, and what would the implications be for the family?
- **Existing borrowing:** Could further borrowing be secured, and would the cost and repayment obligations be acceptable? Are there restrictions under existing lending arrangements?
- **Insurance arrangements:** Is there an existing policy intended to provide funds on death, and is its cover still appropriate? Who would receive the proceeds, and how quickly could they be accessed?
- **Family objectives:** Is preserving a particular business, property or investment portfolio more important than maintaining the current ownership structure?

The answers can help establish whether a funding shortfall exists and how it might be addressed. Advisers should distinguish between immediate cash requirements and amounts that may be met over a longer period through instalment arrangements.

They can also reveal where the succession plan relies on an assumption that may no longer hold true. For example, a plan might depend on a business being sold following the owner's death, even though the next generation has since expressed a strong desire to retain it.

The objective is not necessarily to eliminate every potential liability. It is to ensure that the family understands the options available and can make informed decisions before time pressure or bereavement complicates matters.

The role of life insurance

For some families, life insurance can form part of a solution to the liquidity challenge. A suitably structured policy can provide a lump sum following a valid claim, giving beneficiaries or trustees access to funds without requiring the immediate sale of business interests, property or investments.

Whole-of-life insurance is one option worth considering where the objective is to provide funds whenever death occurs, rather than to cover a risk over a fixed term. Depending on the policy, cover can continue for the insured person's lifetime, provided the contractual conditions are met and any required premiums are maintained. For HNW and UHNW clients, the distinction between guaranteed and reviewable premiums can be particularly important. With reviewable premiums, costs may increase as the insured person ages, affecting the policy's long-term affordability.

The level of cover should be considered alongside the wider estate plan. It may be intended to cover the full

anticipated liability or only the portion that could not comfortably be funded from other resources.

For example, the owner of the £10 million family company discussed earlier faces a potential inheritance tax liability of £1.5 million attributable to the shares. If the next generation intends to retain the company, life insurance could provide funds towards that liability without requiring the sale of shares or the extraction of substantial capital from the business. However, the availability of interest-free instalments for qualifying business property may mean that insuring the entire liability is unnecessary.

The appropriate amount of cover will depend on the projected liability, the availability of other funds, the client's affordability and the extent to which the plan relies on future reliefs or exemptions. Life insurance is not always suitable. Premiums can be significant, particularly for older applicants or those with relevant medical conditions. Cover is subject to underwriting, and a policy may become difficult or expensive to arrange if planning is left until later in life.

For this reason, an early conversation about the potential need for liquidity can be valuable, even if the eventual decision is not to proceed with insurance.

Policy ownership and trust arrangements

The way a life policy is owned and arranged can have important implications for the wider estate plan. Where proceeds are payable to the deceased's estate, they will generally increase its value for inheritance tax purposes. A new policy can be written into trust from the outset, or an existing policy assigned to trustees, so that the proceeds will generally fall outside the deceased's estate for inheritance tax purposes, provided the arrangements are properly structured.

The trust used (bare or discretionary) will depend on an individual's personal circumstances, and the choice of trustees and beneficiaries should be carefully considered. A bare trust gives beneficiaries an immediate entitlement to the trust property, while a discretionary trust allows trustees to determine how and when funds are distributed among the potential beneficiaries.

A trust arrangement helps to ensure that proceeds are available to the intended recipients without waiting for the full estate administration process. However, the legal, tax and practical implications must be considered carefully. Where the proceeds are intended to fund an estate's inheritance tax liability, advisers should establish how the money will reach the executors or beneficiaries, whether through a loan or another appropriate arrangement.

Advisers should also consider how the premiums are funded and whether the payments themselves have any inheritance tax implications. Premiums paid by the insured person for a policy held in trust may constitute gifts, although the normal expenditure out of income exemption under IHTA 1984 s 21 may apply where the statutory conditions are satisfied. For families funding substantial premiums from regular income, maintaining evidence of the payments and their affordability can therefore be important.

Alternatives and complementary solutions

Life insurance is only one possible approach. Effective planning should consider the full range of options and how they may work together. Some clients may be able to retain sufficient cash or liquid investments to meet an anticipated liability. Others may choose to diversify their assets over time, make lifetime gifts where appropriate, or review the ownership and succession arrangements for a family business.

Borrowing may be another option, although it introduces its own costs, risks and repayment obligations. The ability to service or refinance the debt also needs careful consideration.

Depending on the assets involved, payment by instalments may also be available. Under IHTA 1984 s 227, inheritance tax attributable to qualifying property can be paid in ten equal annual instalments. From 6 April 2026, the interest-free instalment option was extended to all property qualifying for agricultural property relief or business property relief, regardless of the rate of relief available.

Returning to the earlier example, the £1.5 million inheritance tax liability attributable to the £10 million family company could be paid in ten annual instalments of £150,000, assuming the statutory conditions are met. However, the first instalment remains due six months after the end of the month of death, and any outstanding tax attributable to the property generally becomes payable if that property is sold.

Each approach has advantages and limitations. Retaining cash may reduce investment returns; selling assets may affect family objectives; borrowing may expose beneficiaries or a business to additional financial commitments; and insurance requires ongoing affordability and suitable underwriting.

The right approach will depend on the client's priorities, family circumstances, asset mix and tolerance for risk, as well as future needs. In some cases, a combination of measures will be more appropriate than relying on a single source of funds. A family might, for example, combine liquid investments, instalment arrangements and insurance to meet its funding requirements.

Keeping succession plans on track

A succession plan should not be regarded as a document that is completed once and then left unchanged. For HNW and UHNW families, changes in business valuations, property portfolios, family circumstances and tax rules can affect both the inheritance tax liability and the resources available to meet it.

Regular reviews should therefore consider whether the existing plan remains aligned with the family's objectives. This includes revisiting projected liabilities, checking existing life insurance cover and trust arrangements, and confirming that the intended beneficiaries and decision-makers are still appropriate.

It is also worth considering how the plan would work in practice. Would the executors know where to find the relevant policy documents? Are the trustees clear about their responsibilities? Would the funds be available in the required timeframe?

For tax advisers, collaboration is often central to this process. Solicitors, investment managers, accountants, financial planners and specialist protection advisers may each have a role in ensuring that the tax strategy, legal structure and funding arrangements work together.

Ultimately, succession planning for HNW and UHNW families is about more than reducing inheritance tax. It may involve preserving a family business, retaining property or ensuring that wealth passes to the next generation without unnecessary disruption.

For families with substantial but illiquid estates, that means asking a fundamental question early: if an inheritance tax liability arose tomorrow, where would the money come from?



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PAYE Settlement Agreements
Fit for the future?

With mandatory payrolling approaching, employers should review how their PAYE Settlement Agreements, data and processes will work in practice.

by Caroline Harwood

PAYE Settlement Agreements (PSAs) perform a very important function. Where a taxable employee benefit or expense is minor, irregular or impracticable to allocate and report through normal payroll processes, a PSA allows the employer to settle the income tax together with Class 1B National Insurance contributions (NICs). This means that employees don't face an unexpected tax charge and payroll teams are not forced to recreate individual-level historic data on minor benefits.

In June 2026, HMRC published a Call for Evidence on 'PAYE Settlement Agreements' as part of a wider review of how PSAs operate in practice. The review, which closed on 15 September 2026, asked how employers use PSAs, how they decide what to include in them, and whether the rules are clear, consistent and fair. The review is not intended to change the underlying taxation of benefits and expenses, but its timing is thought provoking, with mandatory payrolling of benefits fundamentally changing the way benefits are reported from April 2027.

A 'quick poll' on PSAs, carried out on 18 August 2026 by the Chartered Institute of Payroll Professionals (CIPP), found that 72% had an active PSA, while 31% reported that their PSA had been in place for more than ten years. This suggests that many agreements were negotiated before today's working patterns, reward structures and employee expectations developed, and that they may not cover current benefit structures adequately.

Any changes to PSAs should preserve their flexibility, clarify the rules and recognise that real-time reporting increases the value of a year-end settlement route where reliable data is not available by the payroll cut-off date.

Unclear boundaries

The Income Tax (Earnings and Pensions) Act (ITEPA) 2003 ss 703–705 and the Income Tax (Pay As You Earn) Regulations 2003 Part 6 provide the framework, but the terms 'minor', 'irregular' and 'impracticable' require judgement based on historic HMRC practice rather than clear principles. That is uncomfortable where tax, NICs and penalties are at stake, particularly as Guidelines for Compliance 13 (GfC13), on ensuring that documents and returns are correct and complete, and proposed new 'requirement to correct' powers for HMRC increase the focus on filing certainty.

What does 'minor' mean? The term is subjective and may cover small overnight expenses or low-value non-cash gifts. The boundary with the statutory trivial benefits exemption is particularly unclear: a benefit costing £50 or less may be exempt if all conditions are met, while an item failing those conditions may nevertheless be 'minor' for PSA purposes.

'Irregular' is also open to interpretation, but 'impracticable' creates the greatest tension. HMRC suggests that normal reporting should be considered where recipients and costs can be identified. Yet theoretical traceability is not the same as a workable process: badge data may identify attendees at an event but not what each person consumed.

The rules can also produce different outcomes depending on whether the same privately used item is bought directly, paid for by corporate card or voucher, or reimbursed. That form-over-substance distinction is difficult to justify.

Employers need current examples and consistent HMRC decisions to give them certainty.



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Key Points

What is the issue?
PAYE Settlement Agreements remain valuable, but unclear boundaries, complex calculations and inconsistent administration can create uncertainty. The move to mandatory payrolling from April 2027 makes the interaction between the two regimes increasingly important.

What does it mean to me?
Employers need to understand what their existing PSAs cover and ensure that data, calculations and evidence are robust. They must also prepare for mandatory payrolling and decide which benefits may appropriately remain within a PSA.

What can I take away?
Review existing agreements, identify relevant data sources and test exemptions before grossing up. Clear records of sampling, assumptions and tax rates will remain important, while employers should ensure PSA planning forms part of their wider payrolling preparations.

The need for active management

A PSA generally continues until it is amended or cancelled, but an enduring agreement is not a self-maintaining one. Many agreements were drafted before current wellbeing programmes, hybrid working and digital reward platforms existed. 'Staff entertaining', for example, may not clearly cover virtual events or employee networking activities, while broad wording can encourage the assumption that anything similar is covered.

HMRC introduced an online service in 2023 through which employers and agents can apply, amend or cancel their



PSA – a clear improvement. However, an authorised user still cannot see the operative agreement, amendment history, submitted computations, liabilities and payments in one place. For employers with several PAYE schemes, that is a significant control weakness and administrative burden.

Timing adds to the problem. The agreement must be in place by 5 July following the tax year, but employers may identify a category late or wait for HMRC to approve revised wording. The route to regularisation is then unclear, with similar facts sometimes producing different outcomes simply because applications are reviewed by different HMRC officers.

A redesigned service should offer a standard digital agreement, selectable categories, status tracking and an audit trail. National service standards and escalation to specialists would improve consistency, while a defined route is needed for late-discovered items.

The decisive issue: data

Preparing a PSA starts with tax analysis, but the hardest work is usually finding and validating the data. Potential items sit across accounts payable, expenses systems, corporate cards, reward platforms, event budgets and overseas ledgers and can include thousands of lines of data. Ledger narratives may be poor, exemptions may not have been considered at source and population data may be unavailable by the time the annual exercise begins.

The calculation then asks for distinctions that the original record was never designed to capture. Employers may need to separate Scottish, Welsh and other UK taxpayers, allocate costs across marginal rate bands, distinguish employees from guests and consider internationally mobile employees. Where the reason for using a PSA is that precise attribution is impracticable, demanding perfect employee-level data is contradictory.

HMRC's Guidelines for Compliance recognise the use of sampling and the importance of record keeping. Following the guidance can reduce, although not remove, enquiry risk. However, there are still no clear parameters for acceptable estimates, extrapolation and materiality.

In the meantime, employers need to be able to distinguish reliable approximation from weak control. Clearer HMRC parameters on sampling methods, acceptable headcount or attendance data and subsequent adjustments would help them to do so, as would guidance on how employers should retain evidence of sources, exclusions, assumptions, tax rates and ledger reconciliation.

Calculation complexity

A PSA is expensive because the employer pays the employee's tax and that payment is itself taxable. The grossed-up tax is then included, with the original benefit, in the Class 1B NICs base. Where several rates apply, each population must be separated by tax rate and grossed up separately (there are currently six chargeable income tax rates in Scotland), so weaknesses in data or assumptions are magnified.

The treatment of employees below the personal allowance shows how uncertainty can arise. HMRC requires employers to include all employees who received the benefit, including those earning below the personal allowance. Where an employee pays no tax with the employer, HMRC guidance requires them to be included at their first chargeable rate for PSA calculation purposes. This raises a wider question: how far should an employer-level settlement be expected to reflect individuals' precise tax positions?

The annual process is also disconnected from the employer's PAYE account. HMRC recommends submission by 31 July, a non-statutory deadline, with payment due by 22 October electronically (or 19 October otherwise). If HMRC does not receive a PSA calculation, it may make a determination under the Income Tax (Pay As You Earn) Regulations 2003 reg 110 based on estimated figures, potentially resulting in a liability higher than the employer's own calculation.

In practice, some employers have encountered suggestions from HMRC that missing the non-statutory deadline should result in a voluntary disclosure.

While HMRC provides an online method to submit a PSA calculation, it is built around manual inputs from the user. HMRC could instead provide a standard calculation template or structured upload, automatic checks and a digital acknowledgement linked to a visible liability. A single payment reference should follow the submission.

The priority should be consistency: clear rules for mixed populations, nil-rate cases, rounding and estimation.

Mandatory payrolling

From 6 April 2027, real-time reporting of income tax and Class 1A NICs will replace Form P11D reporting for company cars, car fuel, vans, van fuel and employer-provided medical benefits. The precise scope of each category is not yet clear, meaning that employers preparing early will be forced to make assumptions. Most remaining benefits are due to follow from April 2028, while loans and accommodation remain voluntary for now.

This is not simply a matter of replacing a P11D with a payroll data item. Employers will need taxable values before payroll cut-off, rapid notification of joiners, leavers and benefit changes, and robust corrections. Employees will see the tax effect in their take-home pay, making late or volatile adjustments much more visible. In my experience, even a technically correct

WHAT EMPLOYERS SHOULD DO NOW

HMRC's PSA review is not a reason to pause. Employers should take the following steps:

- Review the wording and scope of their enduring agreements rather than rely on institutional memory.
- Map potential PSA items to source systems, data owners and payroll deadlines.
- Test exemptions before grossing up, and document sampling and tax-rate assumptions.
- Reconcile the final population and expenditure to the ledger.
- Check historic nil returns or missing calculations in light of HMRC's determination activity.
- Decide which items will be payrolled, which may remain within a PSA and who is responsible for late decisions.

PSA governance should also form part of mandatory payrolling readiness. Benefit providers must supply timely data, while employee communications should distinguish tax borne by the employer from tax collected through pay.

design can fail if HR, reward, finance and payroll do not operate as one process.

Unlike mandatory payrolling, where tax on a benefit is collected from the employee through payroll, a PSA allows the employer to bear the tax on qualifying items. PSAs should remain available where the statutory conditions are met, including where a cost cannot be valued or attributed reliably before payroll closes. Guidance must prevent double reporting and explain how to make corrections where an item moves between payroll and the PSA.

Payrolling also raises timing issues. Amendments to PSA categories must be agreed with HMRC by 5 July after the end of the tax year. This deadline made sense when a benefit not covered by a PSA could instead be reported on Form P11D by 6 July. Under mandatory payrolling, why not allow employers longer, potentially until the statutory PSA payment deadline of 22 October, to capture all relevant items in their PSA?

Special cases also need to align. HMRC has indicated that globally mobile employees may be voluntarily excluded from mandatory payrolling from April 2027 and remain within year-end P11D processes. Third-party benefits and items identified after an employee leaves also complicate a real-time model. PSA reform cannot sensibly be designed in isolation from these cases.

Practical reforms

Any changes to the PSA rules should create a clearer settlement regime that reflects why employers use them. HMRC should prioritise the following issues:

- **Clearer boundaries:** HMRC should publish a decision framework linking exemptions, payrolling, P11D reporting and PSA treatment, supported by worked examples that explain how the rules apply in practice.
- **Proportionate safe harbours:** The rules should offer simplified treatment for low-value or genuinely communal provision, with thresholds reviewed and updated periodically to avoid outdated cliff edges.
- **End-to-end digital administration:** Employers and agents should be able to view and amend agreements, submit calculations, validate figures, see liabilities and payments, correct errors and manage multiple PAYE schemes through a single service.
- **An evidence standard:** HMRC should set clear expectations for sampling, estimates, and apportionment.
- **Outcome-driven tax treatment:** The rules should avoid disparities in tax treatment arising solely from the form in which payment for the same benefit is made.

In conclusion

PSAs remain valuable because benefits do not always fit neatly into individual payroll records. HMRC should judge any changes against one practical test: can each taxable benefit be reported once, accurately and through the most proportionate route? Clear boundaries, accepted evidence standards, simpler calculations and an integrated digital account would meet that test. Requiring more employee-level data regardless of cost or reliability would not.

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Managing workloads Before it becomes urgent



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Effective time management means protecting important work before it becomes urgent, helping tax practitioners reduce risk and manage growing pressures.

by Jeremy Mindell

Tax software provider Alphatax published data on the first Pillar Two filing season, following the 30 June 2026 deadline. The figures were striking: 73% of filings across its Pillar Two platform were completed during the final three days, while 46% of filings were submitted on the deadline day itself. These findings raise some interesting questions about how work is managed around major deadlines.

That is not a comment on Alphatax's technical quality or ease of use. The concern is what happened before the deadline, particularly as taxpayers had already been given an extended period to prepare their first returns. Why did so many companies wait until the final three days? Perhaps there was a genuinely difficult technical question being debated within the tax department. Perhaps the return passed through several rounds of review before final approval. Or perhaps, after several months of meetings, emails and increasingly desperate calendar invitations, somebody finally said: 'For goodness' sake, just file it.'

The timing raises an uncomfortable question: how much careful consideration went into these last-minute submissions? If I were HMRC and deciding which returns to review, I might begin with those filed on deadline day. A return that is submitted at 11.57pm does not necessarily contain an error. It may be the magnificent culmination of a perfectly controlled process. It may also have been prepared by somebody holding a calculator in one hand and a resignation letter in the other.

More technology, less time

We have more labour-saving devices, yet less time. Technology enables us to work faster, communicate instantly and process quantities of data that would previously have required an entire department. Yet it has not produced an abundance of calm afternoons.

Instead, we struggle with more emails because sending them takes seconds, more meetings because arranging them is easier, and more reports because producing them is quicker. We have more notifications because apparently silence is an operational risk, and more deadlines because technology has demonstrated that everything can be completed immediately.

The first Pillar Two filings may have resulted from a well-managed process that was scheduled to conclude on deadline day. Alternatively, they may reflect a decision that an imperfect return was preferable to no return at all. The distinction matters: a deadline should be the final safety barrier, not the project plan.

Four ways to spend the working day

A familiar approach to time management divides activities into four categories: urgent and important; important but not urgent; urgent but not important; and neither urgent nor important. The principle is to deal immediately with the first, protect time for the second, limit or delegate the third, and keep the fourth in proportion.

The framework is simple. Applying it is more difficult, partly because almost everybody who sends an email believes their request belongs in the first category.

Key Points

What is the issue?
Tax practitioners face growing demands on their time, making it easy for important work such as training, preparation and review to be postponed until deadlines turn manageable tasks into urgent problems.

What does it mean to me?
Poor time management can increase workloads, create unnecessary administration and raise the risk of mistakes. Protecting time for technical development and systematic workflow management can improve both the quality and efficiency of tax work.

What can I take away?
Identify important work before it becomes urgent, set internal deadlines, manage interruptions and tackle recurring bottlenecks. Clear policies for clients who provide information late can also protect staff time and reduce last-minute pressure.

Neither urgent nor important

Activities that are neither urgent nor obviously important may include conversations by the water cooler, organising the annual cricket match or other social activities. On a narrow task list, these can look expendable but their cumulative value may be substantial.

Informal contact helps colleagues to build trust, exchange information and notice when somebody is struggling. It can contribute to communication, morale and staff retention. The annual cricket match may not be urgent but not everything valuable arrives with a filing deadline. Twenty minutes talking to colleagues over a coffee may strengthen a team. The sensible approach is to keep these activities proportionate.

Urgent and important

The last-minute Pillar Two returns almost certainly occupied the urgent and important category. Once a filing deadline is imminent, the return must take priority. But many tasks become urgent simply because they were allowed to drift.

When everything becomes urgent, practitioners lose control of their time. The working day becomes a sequence of other people's emergencies, some of which began as perfectly manageable requests weeks earlier. Procrastination also creates more work: reminder emails, progress meetings, escalations and repeated explanations. The original task remains, but it now travels with an administrative entourage.

Late work increases the risk of mistakes. Reviewers have less time to challenge assumptions, investigate inconsistencies or obtain missing information. The objective gradually changes from producing the right answer to producing an answer before midnight. That may be understandable in a genuine emergency but less so when the deadline has been in the calendar for 18 months.

Urgent but not important

Email is the obvious example. Constantly checking the inbox creates the sensation of productivity. Messages are opened, forwarded, acknowledged, flagged, unflagged and placed into folders with ambitious names such as 'Action this week'. At the end of the day, the practitioner has dealt with 83 emails and completed none of the work that caused 47 of them.

An email's arrival produces a notification, not a legal obligation to answer it within 90 seconds. Useful disciplines include checking email at planned intervals, turning off unnecessary notifications and delegating operational questions where appropriate. It can also be worth challenging artificial urgency, particularly where somebody else's poor planning has been transferred to you.

Of course, some urgent emails exist precisely because earlier work was not done.

Important but not urgent

Training is a classic example of valuable work that is easily neglected. Most professionals agree that training is important, but unless a course addresses an immediate technical problem, it can easily be postponed in favour of client work, meetings or unexpected requests.

The longer it is deferred, the harder it becomes to find time for it. Training eventually becomes urgent when the end of the CPD year approaches and somebody discovers that their record contains only seven hours, three of which relate to fire safety.

Training prevents expensive mistakes

As a lecturer, I might be expected to argue that training is important, but its value goes beyond regulatory requirements. Good training can improve advice, identify tax-saving opportunities and prevent expensive mistakes. Participants need to engage with it, preparing and considering what they want to gain from a course. Nobody is so technically accomplished that they cannot benefit from revisiting fundamental principles.

Consider, for example, the case of *Smith v Stanley* [2019] EWHC 2168 (Ch), in which trustees terminated the widow's life interest and appointed the funds onto discretionary trusts after receiving incorrect professional advice that the transaction would be a potentially exempt transfer. Instead, it gave rise to an immediate inheritance tax charge. The High Court subsequently set aside the appointment on the ground of mistake. Having to ask the High Court to correct the position is hardly an ideal outcome for either adviser or client.

> **Time management has become more difficult as the demands on tax practitioners increase.**

The volume and pace of legislative change mean that regular technical updates are essential. Professionals cannot rely indefinitely on what they learned during their qualifications. Tax law has moved on, even if the course notes remain in an impressive lever-arch file marked 'Important'.

I must confess that I am not a paragon of virtue. A stack of unread *Tax Advisers* looks at me accusingly. I look forward to the Christmas break when I can make some headway with my reading.

Expertise in the age of AI

With modern technology, including artificial intelligence, it might be assumed that keeping up to date will become easier and workloads will decline. I doubt it. Successful tax advisers will increasingly distinguish themselves by evaluating AI outputs, identifying weak assumptions, understanding the commercial context and explaining the consequences clearly to clients.

AI will generate large volumes of material of variable quality. Some will be useful; some will be confidently expressed nonsense. Advisers need sufficient expertise to distinguish between the two.

Nor will greater efficiency necessarily reduce the workload. The photocopier did not lead to a paperless office; it enabled everyone to receive six copies. AI may follow the same pattern, producing drafts, summaries, calculations and analysis more quickly, while somebody competent must still determine whether they are correct.

The adviser of the future will not compete successfully with AI by knowing less than it. They will succeed by knowing enough to question it.

Taking control of the workload

Time management has become more difficult as the demands on tax practitioners increase. In addition to technical work, advisers must manage CPD, anti-money laundering and know-your-client procedures, due diligence, HMRC information requests and internal administration, alongside clients who expect an immediate response because their email contains the word 'urgent' in capital letters.

Practitioners are expected to provide more advice, maintain more records, perform more checks and respond more quickly. It can become an exercise in spinning plates, with the risk that genuinely important work is displaced by whatever demands immediate attention.

Managing those pressures requires a systematic approach to workflow management. Firms should establish internal deadlines comfortably in advance of statutory deadlines, allocate responsibilities clearly and monitor whether information has been received, reviewed and approved.

A sensible process might include:

- requesting information early, with a clear list of what is required;
- setting an internal deadline well before the statutory filing date;
- following up consistently, rather than becoming enthusiastic only in the final week;
- escalating missing information before it threatens completion;
- allowing protected time for technical review and client approval;
- documenting assumptions and unresolved issues before submission; and
- reviewing recurring bottlenecks after the filing season.

The point is not to create additional administration, but to prevent it from multiplying when work becomes late. A well-designed process should reduce reminders, emergency meetings and last-minute review, while improving staff wellbeing. People make better decisions when they are not trying to interpret legislation at 11.45pm while negotiating with an online filing portal.

Managing late information

Firms also need to address clients who repeatedly provide information late. This creates genuine additional cost and risk: last-minute work may require staff to rearrange existing commitments, work additional hours and complete review under severe pressure. A transparent fee policy can reflect those additional demands, with higher charges where information is provided late.

Any such policy should be explained at the start of the engagement rather than introduced through a surprising invoice in February, and firms need to apply it consistently. A late fee that is always waived is not a policy; it is a seasonal conversation.

Clients also need to understand that leaving matters until the last minute creates risks for them as well as for their advisers. Late information can result in:

- incomplete or inaccurate returns;
- less time to identify tax-planning opportunities or resolve discrepancies;
- higher professional fees and increased exposure to penalties or interest;
- rushed decisions without proper consideration; and
- reduced time to arrange payment of the resulting liability.

Early preparation is not simply a matter of convenience for the adviser. It improves the quality of the work and gives the client more options. There is little benefit in discovering a valuable planning opportunity at 4.30pm on the filing deadline if implementing it requires a board meeting, a valuation and the cooperation of a bank.

Staying in control

Effective time management does not mean eliminating every interruption, declining every social event or filling every minute with chargeable work. Nor does it mean responding instantly to every message while postponing the tasks that actually matter. It means recognising important work before it becomes urgent and making time for it.

That includes technical training, early preparation, proper review, staff communication and investment in reliable systems. These activities do not always shout for attention, which is precisely why time must be protected for them.

The lesson from the first Pillar Two filing season is not that deadline-day returns must be wrong. But a system in which so many returns are completed at the final moment deserves examination. Some may have been the product of meticulous processes that concluded exactly as intended; others may simply have reached the point where somebody had to press the button.

Giving important work due attention before it becomes urgent allows tax practitioners to remain in control of their workload, reduce the risk of avoidable mistakes and perhaps even enjoy a peaceful holiday.

Although, naturally, somebody will still email on the first morning back with the subject line: ‘Quick question – should only take five minutes.’

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WELCOME



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December Technical Newsdesk

It is a pleasure to write this final introduction to the Technical Newsdesk for 2026. Sometimes, when starting with a blank document, it can be hard to pin down a suitably interesting angle – but this month I have been lucky, given that the Budget is just behind us and Christmas is around the corner!

On 28 October, the new Chancellor delivered an earlier Budget than last year. From the perspective of unrepresented taxpayers, some of the announcements brought mixed feelings.

For instance, it was confirmed that the government would press ahead with reforms to Self-Assessment tax payments from April 2029, moving taxpayers to a system of earlier and more frequent payments. The reforms were first announced at Budget 2025, with a public consultation taking place over the summer. The Budget day publication of HMRC's summary of consultation responses (tinyurl.com/mwanvw7c) showed some clear positives but left several concerns unresolved.

On the positive side, given the strength of feedback during the consultation – including from the LITRG, CIOT and ATT technical teams – HMRC have sensibly decided to scrap plans for the mandatory collection of Self-Assessment tax payments through PAYE for those with a suitable source of employment or pension income. PAYE collection will now be optional. We are also pleased that HMRC have committed to working closely with stakeholders as they design the new payment regime.

However, this is still a major shake-up of the Self-Assessment tax payment system. There will be many hurdles in designing a new system, and in managing the transitional year in 2029/30. It would be remiss to celebrate the removal of mandatory PAYE collection without acknowledging that the wider project will be a significant undertaking for the government, professional bodies, tax practitioners, and – most importantly – taxpayers. My colleague Sarah Weston has written a blog setting out these challenges in more detail at tinyurl.com/5t2fvfr8.

Another area of the Budget that LITRG was particularly eager to hear about was the solution for state pensioners affected by the continued freeze in the personal allowance. Again, stemming from a brief comment in the 2025 Budget, it had been unclear how the government intended to 'ease the administrative burden' for certain state pensioners paying small amounts of tax under Simple Assessment. We now have an answer: the new Pension Tax Allowance, which will be introduced from April 2027. This appears to apply more broadly than was indicated last year, which LITRG agrees is a fairer solution.

However, this is a temporary measure that introduces further complexity to the system. It will exist only for the remainder of this Parliament, raising concerns that this is a 'band aid' rather than a long-term solution. Even if personal allowances are 'unfrozen' as planned in 2031, the knock-on impact of the previous freeze will remain.

And speaking of freezes, we are now back to 'sparkly season' weather-wise and have a festive month ahead. While December is often a very busy time for tax practitioners, I hope there is still time for some seasonal cheer – whether that means a Christmas party, mince pies in the staff kitchen or some questionable festive jumpers around the office!

INHERITANCE TAX AND TRUSTS

Inheritance tax relief for charitable gifts in wills

The CIOT and STEP have jointly written to HMRC asking for clarification on the inheritance tax treatment of charitable gifts made through will trusts, following a change introduced by Finance Act 2026.

The professional bodies have written to HMRC to warn that uncertainty over the new rule for the inheritance tax (IHT) treatment of charitable gifts could create significant practical difficulties for executors, trustees and taxpayers, and may ultimately discourage charitable giving.

The issue arises from FA 2026 s 78, which amends the Inheritance Tax Act (IHTA) 1984 s 23(6) to remove the words 'or is held on trust for charitable purpose only'. This restricts the IHT charitable exemption to gifts made directly to UK registered charities and clubs meeting the statutory definition. The amendment, effective for deaths on or after 6 April 2026, removes the longstanding provision that allowed relief where property was held on trust exclusively for charitable purposes.

In their letter to HMRC, CIOT and STEP highlight the impact on a common estate planning arrangement under which a testator leaves all or part of their estate to trustees to hold for charitable purposes, often distributing funds among qualifying registered charities in accordance with a letter of wishes. Such structures provide flexibility, allowing the choice of charity to be updated without rewriting a will and enabling trustees to direct funds to causes that remain relevant at the time of death.

As some practitioners are already finding, a charitable trust created by a will does not exist until the testator's death and cannot generally be registered before probate is obtained, yet probate cannot be granted until any IHT due has been paid. This creates a potentially circular problem: charitable trusts are unable to satisfy the conditions for IHT exemption, even though the funds are ultimately devoted entirely to charitable purposes.

CIOT and STEP argue that this outcome appears to run counter to the stated policy objective of supporting charitable giving and is disproportionate to the anti-avoidance concerns that prompted the legislation. They note that many affected arrangements involve UK charitable trusts subject to the jurisdiction of UK courts and with no avoidance motive. The uncertainty is particularly acute for estates currently being administered and for existing wills that were drafted before the changes were announced. In some cases, testators may now have lost capacity or died, preventing any amendments to their wills from being made.

The letter asks HMRC to clarify its interpretation of the legislation and guidance, including whether charitable exemption can apply where a charitable trust is registered after death, whether a trust that was not required to register at the date of death can nevertheless qualify, and whether relief could be given provisionally where funds are distributed to registered charities within two years. The CIOT and STEP also suggest that a legislative solution modelled on existing two-year read-back provisions would provide the greatest certainty.

The professional bodies emphasise that clarity is needed urgently. They warn that uncertainty over the availability of charitable exemption, combined with wider impending IHT changes, increases the complexity for personal representatives and risks reducing charitable giving. They have therefore asked HMRC to confirm its position as a matter of priority and to update its guidance accordingly.

Ruth Sadlier *RSadlier@ciot.org.uk*

INHERITANCE TAX AND TRUSTS

ATT and CIOT secure legislative change on inheritance tax charitable giving rules

Following representations from ATT, CIOT and other bodies, the government is making changes to ensure that a technical barrier does not prevent estates with pension assets from accessing the reduced IHT rate connected to charitable giving.

When proposals to bring unspent pension assets within the scope of IHT from April 2027 were announced, one of our many concerns was the impact on access to the reduced rate of IHT for charitable giving. The government is now legislating through the current Finance Bill to remove this technical barrier, addressing an important concern raised during the consultation.

Background

Where an estate includes gifts to charity, some or all of the remaining estate may benefit from a reduced rate of IHT, provided that the gifts are large enough. The reduced rate of 36% was introduced in 2012, to encourage individuals to consider making charitable gifts in their wills.

To qualify for the 36% rate, the gift must be more than 10% of a 'baseline' amount. Broadly, this is the net estate after the deduction of allowances such as the nil rate band. The test is not applied to the estate as a whole. Instead, the estate is divided into three components: the amounts left by survivorship, the settled estate and the general component.

An estate may meet the test in one component and benefit from the reduced rate for that component alone. Alternatively, a charitable gift can be large enough that an election can be made to extend the reduced rate in one component to one or more of the other components.

HMRC's view was that any notional pension property subject to IHT would form part of the general component. To ensure that individuals were not discouraged from making charitable gifts on their death – or did not miss out on the reduced rate because their gifts were not sufficient to meet the tests once pension assets were factored in – the ATT and CIOT made a number of representations to ask for pension assets to be treated as a separate 'component' for the purposes of the reduced rate. We are delighted that the government has now taken up our recommendation.

Outcome

The amendments in clause 43 of the Finance Bill should protect access to the reduced rate for those who have planned to make charitable gifts under the existing rules, while providing greater flexibility for those wishing to make charitable gifts.

Without the change, it could have been harder for estates to qualify for the

OMB PERSONAL TAX PROPERTY TAX PROFESSIONAL STANDARDS

Withdrawal of capital from a business: changes to HMRC's manual

HMRC have changed their guidance in the Business Income Manual at BIM45700 and related pages, concerning the deduction of interest costs and the withdrawal of capital from a business. CIOT and ATT are concerned that taxpayers may not be aware of this change, which may give rise to uncertainty.

In July 2026, HMRC changed their guidance on the deduction of interest costs and the withdrawal of capital from a business in the Business Income Manual at BIM45700 and related pages.

The previous guidance indicated that when capital introduced into a business was withdrawn and replaced by a loan, HMRC accepted that the interest payable on the loan would be an allowable deduction. This was on the basis that the purpose of the additional borrowing was to provide working capital for the business, provided that the proprietor's capital account was not overdrawn.

The revised guidance appears to indicate a change of interpretation by HMRC, so that simply exchanging existing capital for loan finance will not satisfy the 'wholly and exclusively' test where the borrowing is not used for business expenditure.

CIOT and ATT are concerned that taxpayers may not be aware of this change and that the changes give rise to uncertainties for taxpayers who may have relied on the previous guidance when preparing Self-Assessment returns. They have contacted HMRC and been advised that an update will be provided in November's Agent Update, which should clarify matters further. The CIOT has also written to HMRC setting out the concerns: tinyurl.com/mr2cnvmt.

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reduced rate because a deceased's will does not control how a pension is distributed.

ATT's representation can be viewed at: tinyurl.com/mreewm45

CIOT's representation can be viewed at: tinyurl.com/mv47pm74

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EMPLOYMENT TAX

Aligning NICs and income tax recovery time limits: CIOT and ATT responses

ATT and CIOT welcome moves to align National Insurance Contributions and income tax recovery time limits, while warning that reform must simplify administration, protect appeal rights and avoid reviving historic liabilities.

The ATT and CIOT have responded to an HMRC consultation (tinyurl.com/2kxy2n7r) on aligning the time limits for recovering National Insurance Contributions (NICs) with those applying to income tax.

The consultation proposed removing NICs from the scope of the Limitation Act 1980 and the Limitation (Northern Ireland) Order 1989, introducing a statutory Notice of NICs Liability, and aligning the time limits for the recovery and repayment of NICs with the corresponding income tax rules.

ATT's response

The ATT supported closer alignment between the administration of NICs and income tax. At present, PAYE income tax and Class 1 NIC liabilities arising from the same earnings can be subject to different statutory deadlines, appeal arrangements and debt-recovery processes. This creates complexity and additional costs for employers, employees and advisers.

However, the ATT noted that aligning recovery time limits alone would not address the underlying fragmentation. It recommended that the government consider bringing PAYE income tax and related NICs liabilities within a single legislative framework, with coordinated determinations, common time limits and linked review and appeal arrangements.

If the government proceeds with a separate statutory Notice of NICs Liability as an interim measure, the ATT recommended that it should clearly identify the relevant tax years, employees, NICs classes, calculations and legal basis of the liability. Taxpayers should be able to challenge both the underlying NICs liability and matters relating to the validity, calculation and enforceability of the notice. Recovery should be suspended while a review or appeal is in progress.

The ATT was also concerned that, once a notice had been issued within the applicable time limit, HMRC could have no further fixed deadline for recovering the debt. It recommended safeguards requiring HMRC to act without unreasonable delay.

The proposal to reduce the general period for claiming repayment of NICs from six years to four years could cause employers and individuals to lose repayment rights before an error is identified. The ATT recommended transitional protection and a statutory relief mechanism for appropriate claims outside the normal period, particularly where an overpayment emerges only following litigation, an HMRC enquiry or a historic payroll correction.

The ATT also stressed that simplification must preserve employees' rights where a decision affects their contribution record or entitlement to contributory benefits. It called for specific consideration of Scottish prescription and limitation law and recommended that HMRC engage with Scottish legal practitioners and the Law Society of Scotland.

CIOT's response

The CIOT similarly supported the principle of aligning the administrative frameworks for NICs and income tax but considered that the reform should deliver genuine procedural alignment rather than simply adding another statutory document to the existing process.

CIOT's preference was for a single assessment framework, or at least a combined notice, covering PAYE and NIC liabilities arising from the same facts. Related PAYE and NICs issues should also be capable of being reviewed and appealed together.

CIOT was concerned that the proposed Notice of NICs Liability would create an enforceable debt without providing a direct right of appeal. Requiring an employer to request and then appeal a separate section 8 decision could create a procedural trap. The CIOT therefore recommended that appeal

rights should attach directly to the instrument establishing the liability or, if the proposed process is retained, that any timely written challenge should be treated as a request for a section 8 decision and, where appropriate, an appeal.

CIOT also called for prospective commencement provisions ensuring that liabilities that have already become irrecoverable cannot be revived. It recommended protection for historic repayment rights, consequential claims arising from later decisions, clear employee notifications and proportionate record-retention requirements.

ATT's full response can be viewed at: tinyurl.com/2s3pe89j

CIOT's full response can be viewed at: www.tax.org.uk/ref1777

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INDIRECT TAXES

VAT: partial exemption working group: guidance project

HMRC's VAT Partial Exemption Guidance provides guidance on attribution and the 'direct and immediate link' test, which assists businesses and advisers when deciding how to allocate input VAT under the partial exemption method. With case law continuing to clarify the principles for attribution, HMRC has engaged with its Partial Exemption Special Method (PESM) working group, which includes representatives from practice and CIOT, to discuss whether a list of positive indicators that would integrate outcomes from case law could provide greater clarity and certainty in the guidance.

In previous articles, the CIOT has highlighted its previous work with HMRC's Partial Exemption team, both through the working group (tinyurl.com/ycayfwnb) to discuss difficulties in applying for and negotiating partial exemption special methods, and through individual discussions (tinyurl.com/5948bzz2) on practical tips when special method applications are rejected. At the October 2026 meeting, the topic under consideration was attribution and the 'direct and immediate link' test.

Pages PE21000 and PE21500 of HMRC's VAT Partial Exemption guidance (tinyurl.com/5x63dksu) currently set out the main principles for attribution and relevant case law. In advance of the meeting, HMRC had prepared ten draft positive indicators that set out practical scenarios where attribution of input VAT (VAT incurred on costs) is typically considered and highlighted the principal case law relevant to each indicator.

The focus group considered several key discussion topics, including the difficulties that could arise for particular outputs, how effectively the indicators might address those difficulties, the case law foundations, and suggestions for amendments, additions and deletions.

It is important to note that although it is likely there will be updates to the partial exemption VAT manual on attribution, HMRC stressed several points about the draft indicators:

- They would not constitute a new legal test. They are intended to explain existing law, not replace it.
- No fixed number of indicators would determine a particular outcome.
- Not all indicators on the list would need to be met, though contrary evidence cannot be ignored.
- They do not remove the need to examine the facts of each business.

HMRC are undertaking further work to consider and incorporate the feedback from the meeting and any subsequent submissions. As the project is still in its early stages, if you would like to send any feedback about the attribution guidance in the VAT manual, please contact us at technical@ciot.org.uk.

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OMB PERSONAL TAX PROPERTY TAX

Business rates and self-catering holiday accommodation in Wales

The Welsh government is proposing exemptions from the actual letting requirement (182 days) for self-catering properties in Wales to qualify as non-domestic and therefore liable for business rates rather than council tax. The CIOT responded to the consultation.

Self-catering properties in Wales are required to meet day-count tests to be classified as non-domestic and therefore liable for business rates rather than council tax. These include a requirement for properties to be let commercially (for short periods) for at least 182 nights in the same 12-month period. Five exemptions from this actual letting condition are proposed in a recent consultation by the Welsh government.

In responding to the consultation, the CIOT pointed to the underlying structural issue arising from the interaction between council tax and business rates, which is particularly complex for holiday accommodation because of:

- the boundary as to whether the property is classed as domestic or non-domestic; and
- the impact of small business rates relief (SBRR), which means that the most favourable position is to be assessed for business rates but qualify for SBRR.

This complexity means that similar businesses are not always treated in the same way, leading to distortions and potentially unintended consequences.

Regarding the five proposed exemptions from the actual letting requirement, we agreed that they are broadly sensible, as they reflect the policy intent of excluding certain limited types of property that cannot be used as permanent homes from the domestic classification.

However, our main concern is the potential for increased administrative burdens for small businesses where the exemptions involve a significant subjective element. This applies particularly for the 'wider business' exemption (for businesses such as wedding venues or leisure parks) and the 'property on the owner's farm' exemption (for example, annexes, converted outbuildings and lodges that share a registered title with the owner's main residence).

We suggest the introduction of an annual declaration in the proposed duty to notify, so that eligibility for the exemptions can be monitored. A tailored duty to notify form could also be created to ensure that relevant information is captured consistently, allowing the Valuation Office to review the status of the property. We also suggest that safeguards may be needed to prevent manipulation of planning consents or merger of title to take advantage of two of the exemptions.

The full response is at: tinyurl.com/3znjtkbe.

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INDIRECT TAXES

Scottish Building Safety Levy: ATT response to technical consultation

The ATT has called for the Scottish government to introduce reliefs for development on brownfield sites and first-time buyers when finalising the rules for the new levy, which comes into force in April 2028.

The ATT has responded to the Scottish government's technical consultation on the operational aspects of the Scottish Building Safety Levy, ahead of it taking effect from April 2028. The consultation explored key areas, including the floorspace methodology used to calculate the levy, as well as exemptions, reliefs and payment arrangements. Many aspects of the consultation were more relevant to property developers and other stakeholders in the construction industry. The ATT response focused on matters within its remit as a tax professional body.

The ATT supported the use of gross internal area to calculate floorspace, which is consistent with the UK government's Building Safety Levy in England. It also called for the Scottish government to issue guidance on the proposed exclusion of communal areas in a property, allowing developers to assess their liability correctly. This would also help minimise disputes over how floorspace is measured, particularly for developments involving shared facilities or mixed-use buildings.

The ATT supported relief for units built on brownfield land, including potentially contaminated sites. The rate of relief should be at least equivalent to the 50% available under the UK government's Building Safety Levy in England. In order to target relief, the ATT suggested that the Scottish government may wish to consider providing additional reliefs to incentivise a particular type of regeneration or support smaller developers. This would be in line with the enhanced corporation tax relief for research and development expenditure that was available to small and medium enterprises until recent years.

To avoid the relief being misused, the ATT made a recommendation for the Scottish government to review and consider the corporation tax land remediation rules when defining the scope of any exemption for units built on brownfield land, particularly those denying relief where the claimant or a connected person was the original polluter.

Regarding proposals for a further exemption for conversions, the ATT stressed the importance of ensuring that any additional relief is carefully designed to avoid more relief being claimed than intended. It highlighted the former Flat Conversion Allowance, which operated between 2001 and 2013, and recommended that the Scottish government considers whether a similar clawback provision would be appropriate for the Scottish Building Safety Levy.

Finally, the ATT recognised the benefits of providing relief for units sold to first-time buyers and suggested that the Scottish government could adopt a similar approach to the First Homes Fund, where support is targeted at properties costing up to £300,000. For consistency across devolved taxes, the ATT favoured aligning the criteria with the first-time buyer relief under land and buildings transaction tax.

The full ATT response can be viewed at: tinyurl.com/57tmdutc.

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Budget reaction

Budget brings new complexity and bear traps

While some Budget measures simplify, others make the tax system more complex, warn CIOT and ATT.

Budget 2026 does little overall to simplify the tax system, said Ellen Milner, CIOT's Director of Public Policy, citing 'a tweaked personal allowance for pensioners, changes to investment reliefs and a further widening of the gap between how income from work and income from property and savings are taxed'. 'Each measure may have its merits, but the overall effect is to add to the complexity of the tax system,' she warned.

The CIOT's Low Incomes Tax Reform Group (LITRG) put the spotlight on the new Pension Tax Allowance, welcoming it but warning that it may present complexity for some. Antonia Stokes, Senior Manager at LITRG, said that operating the allowance as a 'tax reducer' rather than a top-up to the personal allowance was arguably fairer, but could make it more difficult for pensioners to understand.

Jon Stride, chair of the ATT's Technical Steering Group, had similar concerns about the allowance, saying that it 'risks creating another layer of complexity'. 'In the longer term, we would like to see a tax system where problems like this are addressed through a coherent approach to thresholds and allowances, rather than requiring the creation of additional reliefs and tapers,' he added.

The new Founders' Relief, which will sit alongside Business Asset Disposal Relief and Investors' Relief, also risks increasing complexity, CIOT warned, unless there is 'a clear vision for what each is intended to achieve, how they interact and the behaviours the government wants each one to encourage'. Technical Officer Ruth Sadlier also stressed the importance of designing the new relief 'without the bear traps that catch investors out on some existing reliefs'.

However, there were some simplifications to be found in the Budget. For example, the ATT praised the government's decision to remove the R&D claim notification form. 'Businesses carrying out genuine qualifying research and development should not lose the opportunity to claim tax relief simply because they have missed an additional administrative deadline,' said the Association's Jon Stride.

CIOT also welcomed a package of measures that were designed to reduce administrative burdens on employers and increase the flexibility of employee share schemes. Sarah Hewson, chair of the Institute's Employment Taxes Committee, was particularly pleased that payments by employers of the Immigration Skills Charge and Certificate of Sponsorship fee will no longer be treated as taxable benefits in kind. The CIOT had called for this to be addressed.

Political update

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

It has been a busy autumn on the political engagement front. We reported in last month's online edition on the debates held by CIOT and CenTax at the Labour and Conservative party conferences on how we tax start-ups and entrepreneurs, at which Financial Secretary James Murray and Shadow Exchequer Secretary John Cooper were speakers. Our reports and analysis on tax announcements and discussions at seven conferences are available on the CIOT website blog at tax.org.uk/blog/1.

The Finance Bill is always a key time for our political engagement. At the time of writing, the ATT, CIOT and LITRG technical teams are all working hard alongside the external relations team preparing written and oral briefings for opposition spokespeople and other MPs scrutinising the legislation. Before that, we gave evidence in person to the House of Lords Finance Bill Sub-committee looking at some of the measures in the Bill. Antonia Stokes (for LITRG) and Margaret Curran (for CIOT) both answered peers' questions about the new requirement to correct and the proposed criminal offence of making reckless untrue statements. Chris Campbell (for ATT) and Sarah Hewson (for CIOT) both appeared as witnesses discussing the mandatory payrolling of benefits in kind. All did a great job of explaining the issues to the Lords and setting out our concerns about them.

We have also been busy in Scotland and Wales. Back in September, Joanne Walker (for CIOT and LITRG) gave evidence to the Scottish Parliament's Finance Committee as part of its pre-Budget scrutiny. CIOT and ATT comments on income tax and council tax were cited in the committee's report. We were also cited in the Scottish government's response to a consultation on the future of council tax and included in a list of key stakeholders in Revenue Scotland's annual report. In October, CIOT co-sponsored a well-attended reception in Edinburgh, under the auspices of the Enterprise Forum, for MSPs and Scottish business. In Cardiff, meanwhile, a team of CIOT representatives met with the new Finance Secretary, Elin Jones, to discuss the new government's tax agenda.



Chris Campbell (ATT) and Sarah Hewson (CIOT) giving evidence to the House of Lords



CIOT's Chris Young with Economy Secretary Stephen Flynn MSP, at an Edinburgh reception co-sponsored by CIOT

Members survey

Budget 'missed opportunities'

The Budget missed an opportunity to drive economic growth and simplify the tax system, according to a survey of more than 300 members of the ATT.

Asked which area the Budget should have focused on more, 37% of respondents said it should have sought to promote growth, while a further 28% chose tax simplification measures. Other issues included cost-of-living support (11%), incentivising investment (9%) and closing the tax gap (6%).

The findings come as ATT members gave the Budget itself a largely subdued reception. Almost half (49%) described their reaction as negative, including 12% who were 'very negative'. Another 38% were neutral, while 13% were somewhat positive. Not a single respondent selected 'very positive'.

The poll also asked tax professionals which Budget measures they expected to have the biggest impact on their clients. Income tax changes were the most commonly cited, chosen by around a third. Savings and investment measures were next, selected by more than one in five.

Jon Stride, chair of the ATT's Technical Steering Group, said: 'The message from our members is clear. While Budgets inevitably involve difficult choices, tax professionals think there was scope for the government to do more to support growth and make the tax system simpler.'

Timely payments

Self-assessment changes

CIOT and ATT have welcomed the government's decision not to require mandatory payment of self-assessment payments on account through PAYE, but concerns remain about the impact of earlier and more frequent payments on taxpayers' cash flow and the practical implementation of the wider reforms.

'We support the aim of helping people spread their tax payments and avoid the build-up of debt, but we had significant concerns about the original proposals that would have required certain people to pay their self-assessment liabilities through PAYE, particularly those with low or fluctuating incomes or limited financial resilience,' said Ellen Milner, Director of Public Policy at CIOT.

'Giving taxpayers a choice over whether to use PAYE is important,' added ATT's Jon Stride. 'Someone with rental or investment income may quite reasonably prefer to keep that separate from their employment, rather than have details of their wider financial circumstances potentially reflected in their PAYE tax code. But changing how taxpayers can make these payments does not resolve our more fundamental concern about whether accelerating self-assessment payments is necessary or proportionate.'

Making Tax Digital

Easement welcomed

ATT and CIOT have welcomed the announcement that taxpayers joining Making Tax Digital (MTD) for Income Tax from April 2027 will benefit from a temporary easement from late submission penalties during their first year in the regime.

'We're pleased to see that common sense has prevailed and the government has acted on our call to extend late filing penalty easements to those joining MTD next year,' said Emma Rawson for ATT.

'Moving to a new reporting system is a significant change and it is sensible to give taxpayers time to get used to it before penalties start to bite,' said CIOT's Ellen Milner. However, she added that a delay to penalties 'must not become a delay to preparation'.

Claire Thackaberry, Technical Officer at LITRG, also called the announcement 'sensible', noting that taxpayers joining MTD from next April are 'more likely to be managing their tax without professional help and to be using accounting software for the first time'. She stressed the importance of HMRC providing 'clear, timely communications and guidance'.

In the news

Coverage of CIOT and ATT in the print, broadcast and online media

'The government has just consulted on whether businesses should make four tax payments a year. The ATT has already urged it not to proceed... The CIOT says the collection mechanism is "poorly understood, prone to errors and limited in what it could achieve".'

'The i', 23 September

'Emma Rawson, at the ATT, warned [software] was a "real area of concern" for those being caught by new MTD rules. She said: "If taxpayers inadvertently pick the wrong software for them, they could be in for a surprise when they try to file their tax return and find it cannot do it."'

Telegraph, 9 October

'It will be essential that the new code of practice provides robust safeguards and clear protections for taxpayers.'

ATT's Autumn Murphy in 'The i' on proposed powers for HMRC to deduct unpaid tax directly from bank accounts, 29 October

'It is disappointing that HMRC data constraints prevent automated repayments further back, but it is positive that taxpayers can take steps to rectify earlier years if they identify they have been affected.'

LITRG's Antonia Stokes in The Express on state pension tax errors, 1 November.

'It marks stage one of the three-phase Making Tax Digital for Income Tax programme HMRC is bringing into effect across the next three tax years, the CIOT explains. Sole traders and landlords with a qualifying income of £30,000 for the 2025 to 2026 tax year will need to start using the system from April 6, 2027.'

The Express on key deadlines approaching in MTD, 3 November

'The cost to government is only part of the picture. Taxpayers may also face extra costs, such as having to pay for software to file quarterly updates and year-end tax returns, or for extra advice to help them comply with the rules.'

Laura Cumins of LITRG in the Telegraph on the costs of MTD, 8 November

Membership requirements

Annual Returns due: ten top tips

With the deadline for submitting 2026 Annual Returns extended to 28 February 2027, we offer ten practical tips to help members complete this mandatory requirement.

An Annual Return must be completed each year by all CIOT or ATT members and ADIT Affiliates, excluding students or those who hold retired membership status. You should have received an email invitation to submit the 2026 return and pay any 2027 subscriptions due. If you did not receive the invitation in November, you must still fulfil this mandatory membership requirement, otherwise you will become subject to a financial penalty or referral to the Taxation Disciplinary Board.

If you did not receive the email, we suggest checking your spam folder, ensuring we have your current email address on record, and adding membership@ciot.org.uk or membership@att.org.uk to your email contact list. Members can view and update their details in their Portal account.

Extended submission deadline

In direct response to members' feedback, the deadline to submit your Annual Return has been extended to 28 February 2027. We expect all members to meet the new deadline, and those who fail to do so should expect disciplinary follow-up action. We encourage members to complete their return as soon as possible to avoid missing the deadline. The Portal is already open for submissions, so there is no need to wait.

Please note that the deadline for payment of subscriptions remains unchanged. These must be settled by **31 January 2027** unless you are paying by Direct Debit.

Why do we require an Annual Return?

CIOT and ATT members and ADIT Affiliates are required to meet high professional standards, which are essential to maintaining our reputation for excellence in tax and public trust in the tax profession. The Annual Return is one of the tools we use to ensure compliance with these standards, as members confirm that they are meeting their membership and legal requirements.

Top 10 Tips to complete your return

1. The form can be accessed at https://pilot-portal.tax.org.uk and works best when accessed using Microsoft Edge or Google Chrome. Some members have previously experienced problems using Firefox and Internet Explorer, so these browsers are best avoided where possible.
2. The questions cover the period from 1 January to 31 December 2026. The deadline for submission is 28 February 2027.
3. Members are asked whether they work in tax. Make sure you answer this correctly so that the form generates the right follow-up questions. You are working in tax if you provide tax compliance, advice, consultancy or guidance in private practice, the public sector (e.g. HMRC), commerce, industry or the not-for-profit sector. Working in tax also includes those in mixed tax and technology or tax software development roles, as well as non-client-facing roles such as tax writers, lecturers and trainers.
4. If you have more than one tax role, for example, you are employed as an in-house tax adviser in industry and also run your own private practice, you must select all the appropriate options so that the relevant questions for each role are generated. If you have more than one tax role within the same category, e.g. you are a director of two different tax or accounting practices registered with Companies House, please email us at standards@tax.org.uk with details of your additional tax roles.
5. If you are working in tax and have your own business, you will be asked to confirm your anti-money laundering (AML) supervisor. Please ensure that the information you provide about your AML supervisor is correct. You must be able to provide evidence of this if requested. If your supervisor is not on the drop-down list, please answer 'No' to the question 'Does your practice/firm/partnership have an Anti-Money Laundering Supervisor?' and give an explanation in the box provided.
6. AML supervision with CIOT or ATT is not automatically provided as part of your membership subscription and requires separate registration and annual renewal. Members are not meeting their legal requirements if they are in business providing tax or accounting services and are not registered for AML supervision. Further information about registration is available on the CIOT website (tinyurl.com/ym7mfa37) and the ATT website (tinyurl.com/2bj744db).
7. The return asks members providing tax services through their own business to confirm that they have professional indemnity insurance (PII) in place, and to identify the insurer providing the cover. It may be helpful for members to have these details to hand before completing the form.
8. Further guidance on completing the Annual Return questions is available on the CIOT website (www.tax.org.uk/annual-return-guidance) and the ATT website (www.att.org.uk/annual-return-guidance). This includes FAQs on how to answer the AML supervision, PII and continuing professional development (CPD) sections, explaining the requirements and the information members need to provide, depending on their circumstances.
9. The form generates a summary of all the answers provided for you to review and edit before final submission. We recommend checking this carefully, as experience has shown that it can be easy to hit the wrong button and inadvertently give an incorrect answer suggesting non-compliance.
10. If you need further assistance with completion of the Annual Return, for example, how to answer particular questions, or if you have concerns that you have not met all your membership requirements, contact membership@tax.org.uk in the first instance. It is important to contact us if you need help or are experiencing difficulties so that we can work with you to ensure compliance. Ignoring reminders and failing to meet this membership requirement will result in a member being subject to a fine or a referral to the Taxation Disciplinary Board.

Qualifications

CTA qualification changes: transitional arrangements

The CIOT explains the transitional arrangements for students moving from the existing Chartered Tax Adviser (CTA) qualification to the new structure being introduced in 2028.

In January's edition of Tax Adviser, 'The new CTA qualification: changes from 2028', we set out the headline changes to the CTA qualification that will be introduced for new registrants from 1 September 2027 and examined from 2028. The CTA qualification will move to a more modular structure designed to support clearer progression.

We are now able to set out what these changes will mean in practice for those already part way through their CTA studies.

What is changing in 2028

From the May 2028 examination sitting, the CTA qualification will move to a staged structure. Candidates will complete a Foundation stage comprising three knowledge papers in subjects connected with tax (ethics, law and accounting), a Foundation tax paper, five Tax Knowledge modules (with Income Tax and NIC being mandatory), a Tax Landscape skills paper, one Advanced Technical paper and one Application and Professional Skills paper.

The CIOT's policy is to transition CTA students from the legacy CTA qualification (those registering as students before 1 September 2027) to the new CTA qualification by the end of 2028.

The transition will take place in two stages, designed to minimise disruption while maintaining assessment integrity. The Transitional Rules document is at: www.tax.org.uk/cta-qualification-transitional-rules. It is accompanied by a decision tool to help students identify their route (for guidance only).

Stage One: January 2028

The transition period will start after the results from the November 2027 exam session have been released. Stage One will ensure that students who have registered for the legacy qualification and who have already made progress in the Advanced stage (Advanced Technical and/or Application and Professional Skills papers) have an opportunity to complete the CTA qualification during the transitional year:

- Candidates who have not progressed beyond the ethics, law and accounting papers will need to follow the new CTA qualification.
- Candidates who have passed the Awareness paper (with or without ethics, law and accounting) will also need to follow the new qualification but will receive appropriate recognition for prior learning.
- Candidates who have passed at least one Advanced paper may remain on the existing CTA qualification during 2028. They will have two further sittings to complete their remaining legacy papers (May and November 2028).

Existing students needing to transition in January 2028 can identify their route through the changes by using our published Transitional Rules document.

Stage Two: the end of 2028

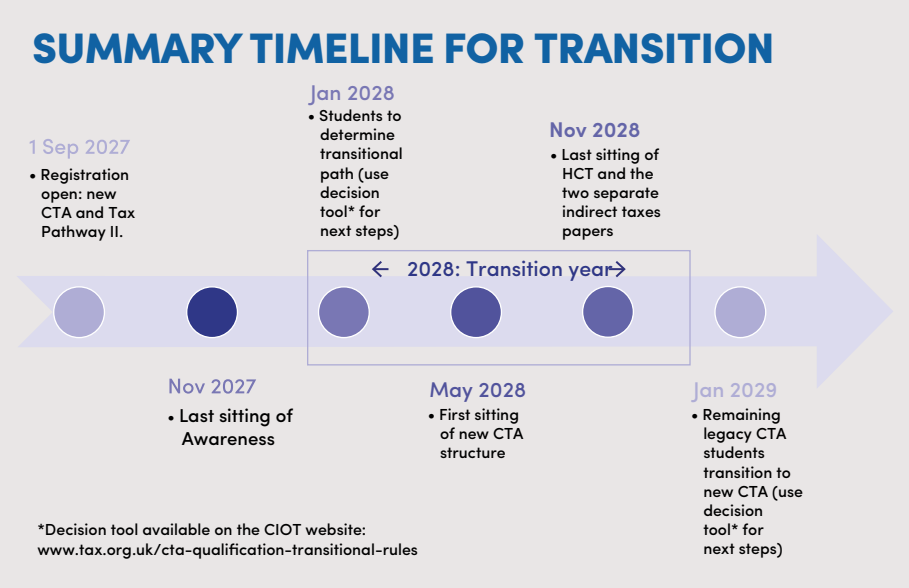
Those candidates who have not completed the existing CTA qualification at the end of the transitional year will transition fully to the new CTA qualification. These students should identify their next steps towards becoming CTA qualified following the publication of the November 2028 exam results in January 2029.

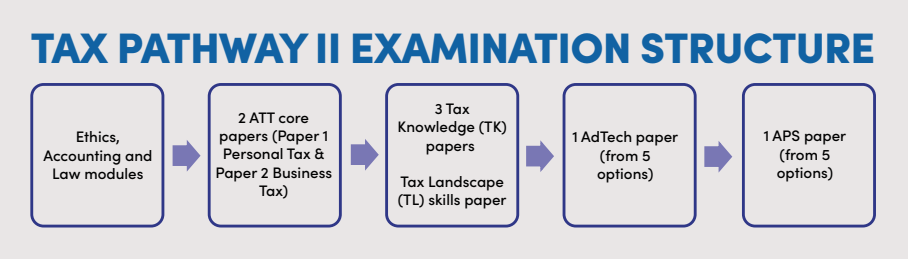
Details of the requirements at this stage, depending on what the student has completed, are included in our Transitional Rules document. This also sets out the position for Human Capital Taxes and Indirect Taxes students, as the relevant Advanced Technical papers will no longer be available from 2029 onwards.

Arrangements for other pathways

- **Joint Programme students:** A new route for the CA-CTA and ACA-CTA Joint Programmes has already been introduced. Joint programme students will see no further changes, apart from the discontinuance of some Advanced Technical papers at the end of 2028 and some syllabus changes to the advanced papers.
- **ATT-CTA Tax Pathway candidates:** A new route, Tax Pathway II, has been designed to work with the new CTA qualification and is available for new registrations from 1 September 2027.

The Transitional Rules document gives more information on how the CTA can be completed for those following the legacy ATT-CTA Tax Pathway.





Event

Volunteers celebrated at Joint Presidents' Reception

ATT and CIOT recognised the outstanding contributions of volunteers and members at their annual Joint Presidents' Reception in London.



Award recipients and the presidents.
Front row (L to R): Sean Egan, Emma Chamberlain, Laura Kaye Tomlinson, Senga Prior, Ritchie Tout, Gabby Donald, Stephen Foulkes. Back row (L to R): Brian Palmer, John Bunker, Dipti Thakrar, Barry Jefferd, Paul Aplin, Ralph Pettengell, Paul Davies, John Endacott

This year's ATT and CIOT Joint Presidents' Reception took place in London's highest public garden, the Sky Garden, at the top of 20 Fenchurch Street in the City of London, better known as 'the Walkie-Talkie' due to its distinctive shape.

The annual reception focuses on recognising the contribution of volunteers to CIOT and ATT's branches and other committees. The two bodies' presidents, Paul Aplin and Barry Jefferd, paid tribute to the work of volunteers across both organisations before recognising a number of members who have made an exceptional contribution.

ATT Council Awards were presented to two former presidents, Ralph Pettengell and Senga Prior, and to Brian Palmer, whose many roles have included chairing the Governance Working Party and representing ATT on the Taxation Disciplinary Board. An ATT Certificate of Appreciation was presented to Stephen Foulkes in recognition of his outstanding service to the ATT and the East Midlands Branch.

Five members were each awarded a Joint Certificate of Merit and Appreciation from the two bodies. Paul Davies was recognised for his contribution to the Manchester Branch, Sean Egan for his commitment to the Thames Valley Branch and Dipti Thakrar for her work for the East Midlands Branch. Laura Kaye Tomlinson received her certificate for chairing the Joint Audit and Risk Committee, while Ritchie Tout was recognised for his contribution to the South Wales branch and the Welsh Technical Committee.

Three CIOT Certificates of Merit were presented. John Bunker's Certificate recognised his work in leading the Institute's Private Client (UK) Committee and its predecessor, the Succession Taxes Sub-Committee. Gabby Donald's reflected her work as chair of the Indirect Taxes Committee. John Endacott's Certificate acknowledged his dedicated service on the Nominations Committee, as well as making a significant contribution to CIOT's trustee appointment process.

The evening also saw the presentation of only the ninth CIOT Council Award ever made. This went to private client tax and trust barrister Emma Chamberlain, recognising her exceptional contribution to the Institute and wider tax profession, including through the Wealth Tax Commission and CIOT's Private Client (International) Committee.

Former CIOT President Nichola Ross Martin was also presented with her past presidential scroll and photo album, while Peter Rayney received a certificate in recognition of his decade of service on CIOT's Council.

Spotlight

Spotlight on HMRC's Digitising Post Programme Forum

CIOT and ATT are helping to shape HMRC's move towards digital correspondence, with accessibility and the needs of taxpayers and agents central to discussions.

For many taxpayers, receiving correspondence from HMRC could increasingly become a digital rather than a paper experience. This shift forms part of a much wider transformation of the tax system, and HMRC's Digitising Post Programme Forum (DPPF) gives stakeholders an opportunity to contribute to the process as plans develop. The Forum was established against the backdrop of HMRC's Transformation Roadmap (published in July 2025) and its policy on Modernising HMRC's Outbound Communications (published in November 2025).

From post to digital

HMRC plans to move towards 'digital by default' for outbound communications. Customers using relevant HMRC digital services will generally receive correspondence digitally once those services move to digital by default, unless they opt for paper. Paper communications will continue to be available for those who choose not to engage digitally or are digitally excluded.

Under the new approach, customers will be able to access correspondence in their digital tax accounts through HMRC's online services. They will be notified when new correspondence is available, rather than needing to rely on a paper letter arriving. To support these notifications, HMRC will collect more verified digital contact details, such as email addresses and mobile numbers, at designated points when customers interact with its digital services.

The transition will not happen across every HMRC service at once. The legislation allows different services to move to digital by default when they meet relevant readiness criteria, including having the necessary IT infrastructure in place. HMRC therefore describes the change as a gradual rollout.

Career development

Is your finance team tax-ready?

As tax requirements become increasingly complex, practical knowledge and professional training can help finance teams manage risks and support better decisions.

Tax knowledge is becoming increasingly important across finance teams, not just within specialist tax roles. As regulation, reporting requirements and technology continue to evolve, finance professionals are expected to recognise tax considerations earlier and understand how they affect wider business decisions. Building practical tax knowledge can help organisations manage risk, support informed decision-making and prepare for the challenges ahead.

Finance teams encounter tax considerations across a range of activities, from payroll and employment taxes to reporting requirements, business transactions and governance obligations. At the same time, technology is changing the way finance teams work. Advances in automation, data analytics and digital reporting have created opportunities for greater efficiency, but have also increased expectations around data quality, controls and compliance. Finance professionals must understand how technology influences processes and decision-making.

For employers and finance leaders, the key questions are practical. Does your finance team have the tax knowledge it needs to keep pace with change? Can team members identify potential tax risks before they become significant issues? Are they confident in responding to legislative changes? And is tax knowledge shared effectively across the organisation?

Getting tax wrong can be costly, while getting it right can help organisations to manage risk and make better decisions. But building tax capability doesn't mean turning every finance professional into a tax specialist. It means ensuring that people understand the tax issues relevant to their role and know when to seek expert advice.

Connor Whelan, Group Services Manager, Group Tax at Porsche Cars Great Britain Ltd, has experienced these benefits first-hand. 'The ATT has been a vital part of my development as a tax professional and has helped me build a strong technical foundation across a broad range of taxes, which gives me the confidence to apply that knowledge in the workplace,' said Connor.

'For example, my ATT knowledge has helped me when reviewing business-led projects, allowing me to identify potential tax considerations at an early stage. That means I can provide clear guidance to the business, help manage risk and make sure that tax implications are considered as part of wider decision-making. The practical knowledge gained through the ATT continues to be valuable in supporting the business and navigating complex issues. The ATT Qualification



has supported me throughout my career, and I'd recommend it to anyone looking to develop their tax knowledge.'

For employers, supporting tax training can help create stronger, more resilient finance teams. It can reduce reliance on a small number of specialists, improve confidence across the function, and support more informed conversations with advisers and stakeholders.

Keeping pace with change requires more than occasional updates. Continuous professional development, structured training and recognised qualifications all have a role to play. The ATT Qualification provides a practical grounding in UK taxation and can support both aspiring tax specialists and finance professionals whose roles increasingly intersect with tax.

CIOT members are also eligible to join ATT without completing any further qualifications, giving them access to ATT member benefits and a wider professional community. Find out more about joint ATT/CTA membership at tinyurl.com/yptbr83r.

To find out more about the ATT Qualification, member benefits and how ATT could support skills development in your organisation, visit www.att.org.uk/stepup-finance.

The Transformation Roadmap

Digitising correspondence forms part of HMRC's Transformation Roadmap, which sets an ambition for HMRC to become a digital-first organisation, with at least 90% of its interactions taking place digitally by 2029/30. Reducing reliance on paper is specifically identified within the roadmap, with HMRC expecting to save £50 million a year in print and postage costs from 2028/29 onwards. For agents, the wider transformation envisages better digital services, including secure three-way communications between HMRC, customers and their agents.

There is, however, an important distinction between digital first and digital only. The roadmap says that HMRC will retain targeted support for people who need it, including those who are digitally excluded or in vulnerable circumstances. The outbound communications policy similarly commits to retaining paper correspondence and ensuring that it remains accessible and meets the same standards of clarity as its digital equivalent.

The role of the Forum

The DPPF brings together representative bodies, customer organisations, accessibility representatives and other stakeholders to engage with HMRC as its plans develop. Accessibility and digital inclusion have been major themes of its discussions, which have considered not only the continued availability of paper, but also how support needs will be identified, how trusted helpers can assist customers securely, and how digital correspondence will be tested with people who have different accessibility needs.

For advisers and their clients, the practical questions include how agents will access relevant correspondence, how customers will know that a new letter is waiting, and how those who need paper will continue to receive it. These are important tests of whether the transition works in practice, rather than simply reducing reliance on post.

ATT (co-chair), CIOT and LITRG participate in the Forum, bringing the practical experience of tax advisers and their clients into discussions about digital correspondence and its interaction with agent services. This enables us to feed views into HMRC as the detail develops and implementation approaches.

Senga Prior: sprior@att.org.uk
Lauren Fletcher: lfletcher@ciot.org.uk
Laura Cumins: lcumins@litrg.org.uk

CPD requirements

Understanding your CPD requirements

CIOT and ATT explain members' continuing professional development obligations, including record keeping, Annual Returns and the importance of maintaining appropriate training.

The CIOT and ATT require all members (including ADIT Affiliates) working in tax, and those not working in tax who use their professional designations (CTA, ATT, ADIT and other variations) to assess and undertake continuing professional development (CPD) appropriate to their duties.

There is no set minimum number of hours or requirement to distinguish between structured and unstructured CPD. A wide variety of activities can count towards CPD, as indicated in the regulations and guidance for ATT at tinyurl.com/542d3hkr and for CIOT at www.tax.org.uk/cpd_regs_guidance.

CPD and your Annual Return

Members are asked to confirm their compliance with the CPD regulations in their Annual Returns, which are now open for submission and due by 28 February 2027. Please ensure you answer correctly. Further guidance is available in our FAQs for ATT at tinyurl.com/vnwj7cwa and for CIOT at tinyurl.com/52xsjydb.

If you have met your CPD obligations, please answer 'Yes' in the Annual Return. You can also answer 'Yes' if any of the following circumstances applied to you in 2026:

- You were not working in tax and were not using your professional designations.
- You were on extended leave due to family, health or personal reasons.
- You were fully retired. This means undertaking no paid work at all, whether tax-related or otherwise. You should contact the Membership team at membership@tax.org.uk to update your status for future years.

Your records and the CPD annual audit

Recording your CPD is a membership requirement. Every spring, a selection of members are asked to provide their records as part of the CPD annual audit. Please respond promptly if you are selected in 2027, as failure to do so may result in a fine and referral to the Taxation Disciplinary Board. In 2026, three fines of £350 each were issued.

Where we see poor records, one of our concerns is that these have been compiled afterwards when members can no longer fully recall the CPD undertaken. We strongly recommend updating your records regularly. Members who submit poor records will be audited again in an upcoming year.

We provide downloadable CPD record templates, but records can be kept in any reasonable format, including those used to meet other professional bodies' requirements. Templates are available from ATT at www.att.org.uk/cpd-forms and CIOT at www.tax.org.uk/cpd_forms.

Professional standards, AML and non-technical CPD

We have provided a range of sample CPD record extracts covering different areas of learning, including professional standards updates, non-technical learning, technical learning and anti-money-laundering (AML) training. These are provided as examples of what we might expect to see in good records. Examples are available from ATT at tinyurl.com/z3kksxr3 and from CIOT at tinyurl.com/yz5a695b.

If you have AML training requirements under the Money Laundering Regulations, it is important that you include this activity in your CPD records. For more information, see our webinars for ATT at tinyurl.com/bddkrhcp and for CIOT at tinyurl.com/3y7zyc2x.

CIOT and ATT CPD resources

We provide both free and 'at cost' CPD resources as part of the benefits available to members. These include branch events, website guidance, online webinars and in-person workshops and conferences covering a range of topics.

Further information is available from ATT at tinyurl.com/2z88x8h5 and from CIOT at www.tax.org.uk/cpd_materials.

If you have any questions on your CPD requirements, please contact us at standards@tax.org.uk.

Tax technology

Tax Technology Conference returns in 2027

Save the date for the second CIOT and ATT Tax Technology Conference in Birmingham on 15 June 2027.

Technology continues to change the way tax professionals work, but keeping pace with new developments and understanding which ones really matter can be a challenge.

Following the inaugural Tax Technology Conference in 2025, CIOT and ATT will once again bring together tax professionals to explore the changing tax technology landscape, as well as the important issue of what these changes mean in practice.

The 2027 conference will help attendees consider how developments in technology could affect their own work, practices, teams and clients. The event is being developed with a wide range of settings in mind, from sole practitioners and smaller practices to mid-sized and larger firms, in-house tax teams and those at the start of their careers in tax.

Attendees will have the opportunity to learn more about emerging tax technologies, hear different perspectives from across the profession and connect with others facing similar opportunities and challenges.

The programme is currently being developed, with further details and speakers to be announced over the coming months. We are also delighted to have Tolley+ with Protégé on board as our conference headline sponsor.



The conference will take place on Tuesday 15 June 2027 at The Vox, Birmingham. Bookings are already open, so you can secure your place now at an early bird rate – and look out for programme announcements in the new year.

Find out more and book your place at: tinyurl.com/9mcpadkh.

Fellowship

Fellowship: taking your professional journey further

CIOT Fellowship offers an opportunity to deepen your expertise, demonstrate your commitment to the profession and take the next step in your professional development.

Qualifying as a Chartered Tax Adviser (CTA) is a significant professional achievement, but it does not have to mark the end of the journey. For those looking to develop their expertise further, Fellowship of the CIOT offers another opportunity to demonstrate their knowledge and commitment to the tax profession.

For some, becoming a Fellow is an opportunity to explore a particular area of tax in greater depth. For others, it provides recognition of the specialist expertise and experience they have developed throughout their careers. Whatever the motivation, Fellowship represents an important professional milestone.

Taking the next step

CTA Associates can progress to Fellowship by submitting a dissertation or a body of work for assessment:

- A dissertation should normally be between 10,000 and 25,000 words and must relate to the UK tax system. It should demonstrate original analysis, supported by full references and a bibliography. Candidates first submit a proposal for Council's approval.
- The body-of-work route provides an alternative for those with existing material demonstrating their expertise. The work must relate to the UK tax system and demonstrate the author's own analysis or an original synthesis of existing material. Its volume is at Council's discretion.

Working towards Fellowship can be rewarding in its own right. Researching a specialist subject encourages candidates to explore complex issues, challenge established thinking and develop a deeper understanding of their chosen field. It also offers an opportunity to make a meaningful contribution to the wider tax profession. By examining an issue in detail and presenting their findings, candidates can help develop understanding of complex areas of taxation, bringing fresh perspectives to subjects that may have wider relevance for practitioners and policymakers alike.

The knowledge gained may strengthen an individual's professional practice, support their work with clients or colleagues and contribute to their wider professional development. Fellowship is therefore about more than adding CTA (Fellow) after your name. It provides an opportunity to demonstrate a sustained commitment to learning and to the development of expertise within the tax profession.

Direct Fellowship

Direct Fellowship is intended for established tax professionals who have not passed the CTA examination and for whom taking it is no longer feasible at their career stage. CIOT's Royal Charter permits a maximum of ten individuals a year to become members through this route. Applicants must meet the eligibility criteria in the Direct Fellowship application form and have two sponsors who are CIOT members. Approval of the application allows them to proceed to submitting a dissertation or body of work to achieve Fellowship.

Interested in Fellowship?

Visit www.tax.org.uk/fellowship for guidance on the routes available. CIOT charges a £207 fee to present a dissertation or body of work. Contact the Education Team at education@tax.org.uk to discuss eligibility, the application process and payment arrangements.

50 YEARS A FELLOW: STEVE BURRELL



Few people illustrate the lasting value of professional development better than Steve Burrell, who this year celebrates 50 years as a Fellow of CIOT.

Steve began his career in tax in 1966, when returns were completed by hand and calculations could involve logarithms. After qualifying with the Institute of Taxation in 1969, he set himself another ambition: to become a Fellow. With no study courses available locally in Norfolk, he prepared by reading the volumes of ***Simon's Taxes*** from cover to cover, successfully achieving Fellowship in 1976.

Over the following five decades, Steve's career has encompassed specialist tax practice, writing for the tax press, serving the East Anglia Branch and contributing to CIOT's Personal Tax Sub-Committee.

And he is not finished yet. Still practising and attending courses, Steve says he intends to continue 'as long as emails keep arriving and the phone still rings'.

His remarkable commitment was recognised at the recent Joint Presidents' Reception at London's Sky Garden, where he was presented with a certificate marking 50 years as a Fellow.

Tax Awareness Week

Your voice can help make a difference

One conversation can make tax feel less daunting. One shared resource can help someone find the guidance they need. Together, our members can take that understanding further. That's why we're inviting you to be part of the second Tax Awareness Week from CIOT and ATT, beginning on 8 March 2027.

Tax touches everyone, but for many it can feel complicated or intimidating. Tax Awareness Week is an opportunity to make tax more approachable, challenge misconceptions and encourage people to seek reliable information and qualified advice. It also shows the difference our profession makes to individuals, businesses and the wider economy.

Education remains at the heart of the week. By sharing accessible information and opening up conversations, we want to help people better understand their tax obligations, recognise the value of professional advice and discover the opportunities a career in tax can offer. Whether someone is approaching their first tax return, growing a business or exploring their future, greater understanding can build confidence.

Each day will focus on a different theme:

- Day 1: Why you need to be tax aware
- Day 2: Debunking tax myths
- Day 3: Understanding your taxes
- Day 4: Volunteering and careers in tax
- Day 5: The benefits of using a qualified tax adviser

As members, you bring these subjects to life every day. You know the questions people ask, the misconceptions that cause confusion and the reassurance that a clear explanation can provide. Tax Awareness Week is your opportunity to share your perspective with a wider audience and show the human side of our profession.

Taking part need not be time-consuming. Share a CIOT or ATT social media post with your own introduction. Explain a common tax misconception in plain English. Tell your network what drew you to a career in tax or highlight how volunteering can make a difference. You could also encourage colleagues and students to join in, reaching beyond our existing professional networks.

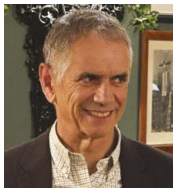
Put the week commencing 8 March 2027 in your diary and think about one way you or your firm could contribute. Follow CIOT and ATT on social media and look out for campaign updates. Whether you share one post or spark a wider discussion, your involvement can help useful information reach someone who needs it.

This is a shared opportunity for the CIOT and ATT community to turn professional knowledge into public understanding. Let's make our second Tax Awareness Week a fresh invitation to ask questions, challenge myths and discover the value of qualified tax advice. Every contribution matters.

For further resources, visit the CIOT website at www.tax.org.uk/tax-awareness-week and the ATT website at www.att.org.uk/tax-awareness-week.

Obituary

Tribute to David Brodie OBE



We were deeply saddened to learn that David Brodie OBE passed away in October. David was awarded a CIOT honorary fellowship in 1999 in recognition of his contribution to the tax profession.

David started his tax career at Coopers and Lybrand and founded TaxAid in 1992. He had previously volunteered with a legal advice charity and was struck by how people on low incomes could struggle to solve tax problems because they could not afford advice. The main objective of TaxAid was that 'people should understand the tax that they are required to pay and have access to free and independent help, where professional advice would be beyond their means'. Initially operating in two small rooms in Kilburn High Road, by 1998 TaxAid was helping 30 clients a week.

David was passionate about improving the tax system. In 2001, he was seconded to the Inland Revenue for two years to help identify policy and procedural changes that would make tax easier for unrepresented taxpayers and played a substantial part in developing the short tax return. David handed the leadership of TaxAid over to Rosina Pullman in 2001 but continued to volunteer for the charity for another 15 years and supported it throughout his life.

David's work in setting up TaxAid was an inspiration to John Andrews, who made supporting the lower-paid one of his CIOT presidential objectives and went on to form CIOT's Low Incomes Tax Reform Group (LITRG) in 1998. LITRG worked closely with David and TaxAid. In 2003, Tax Volunteers, trading as Tax Help for Older People, came into existence with support from CIOT.

In 2015, TaxAid and Tax Help collaborated to launch the joint Bridge the Gap fundraising appeal, which led to the two charities working even more closely together. In July 2025, TaxAid and Tax Help for Older People merged, creating the UK's single strongest voice for tax support. Together, they helped over 18,000 people last year.

David received an OBE for services to low-income taxpayers in 2001. In his later years, he worked for a number of other charities, notably those supporting people with Parkinson's disease.

Stephen Banyard (former TaxAid Chair) said: 'I feel privileged to have known David. His contribution was inspirational to many. He combined a genuine concern for the people he helped with the courage and vision to set up a charity, which has grown and provides a vital service today. He was a kind and gentle man, with a great sense of humour; a wonderful person to know.'

John Andrews said: 'I have known David from his earliest days as my tax student and saw first-hand his steely resolve to help those who had suffered hardship or injustice. Earlier this year, we were working together on a non-tax charitable venture and his quick mind and generosity of spirit made it a delight. I will miss him greatly.'

The tax profession has benefited enormously from David's work, and low-income taxpayers will continue to benefit from his legacy for years to come. Our thoughts are with David's family.

Victoria Todd
Head of LITRG and
Tax Technical, CIOT

Membership

2027 Membership fees

For the first time this decade, next year's fees include an increase above inflation, to 6% for the Associate grade. CIOT's Council and Finance Committee considered this very carefully before approving it.

The CTA remains the leading tax qualification, and we intend to keep it that way. Throughout 2026, we gathered feedback and listened to what employers, members, students and other key stakeholders believe the current and next generation of tax advisers will need from us. In response, we are launching the new CTA qualification in 2027 and developing new educational offerings and member services alongside. Part of next year's membership income will help fund that work.

Thank you for being a member. By renewing, you are helping us to ensure the CTA remains the leading standard for the generation of Chartered Tax Advisers who come after you.

CIOT	2027 fee
Associate / Standard	£479
Overseas Standard	£442
Fellow	£500
Overseas Fellow	£458
Retired with Literature	£94
Retired without Literature	£24
Reduced Rate	£94
Life Associate / No Fee Renewal	£163
Late / Re-entrance Fee	£209

ATT	2027 fee
Standard	£266
Fellow	£289
Joint Rate	£164
Joint Fellow	£176
Retired with Literature	£152
Retired without Literature	£22
Reduced Rate (Not Working)	£85
Low Income Reduced Rate	£152
Life Member	£219
Entrance Fee*	£71

**The entrance fee is doubled for late applicants and re-applicants.*

ADIT	2027 fee
ADIT Affiliate	£223
Reduced Rate	£52
Joint Rate	£112

A MEMBER'S VIEW



Edward Emblem

Private Client Tax Partner, S&W

This month's CIOT member spotlight is on Edward Emblem, Private Client Tax Partner, S&W

How did you find out about a career in tax?
My first exposure to tax was spending school summer holidays working at HM Inspector of Taxes in Farnham. The work was mostly filing P14s and making rounds of tea, but it gave me an insight into what went on behind the scenes at the Revenue and somehow sparked a lifelong interest. I studied Literature at university and considered a career in writing. In the end, I found myself drawn back to tax, which offered exactly the combination of intellectual challenge and human interaction I was looking for.

Why is the CIOT qualification important?
The CTA qualification gave me a strong technical foundation, and the confidence to tackle unfamiliar problems. It taught me how to apply sound professional judgement when the answer is not always straightforward.

Why did you pursue a career in tax?
I've always been interested in situations where complex rules need to be applied to real-life scenarios, especially as no two clients are the same. The technical answer is only one part of the equation; understanding what people want and helping them to navigate significant decisions is every bit as important.

Describe yourself in three words.
Practical, approachable, driven.

Who has influenced you in your career so far?
I have worked with dozens of exceptional people whose approach and professionalism have influenced me throughout my career. One absolute stand-out was the partner who first took me on as a trainee at Menzies, Ian MacLucas. He was hugely knowledgeable and pretty formidable but approached every situation with genuine grace and integrity. When a professional quandary arises, I still find myself asking what he would have done.

What advice would you give to someone thinking of doing the CIOT qualification?
Be prepared to invest the time, ask questions and learn from those around you. The effort is well worth it.

What are your predictions for the tax industry in the future?
Technology and AI are already changing the way tax advisers work. Information will be easier to access than ever before, both for us and those seeking advice. The challenge will be distinguishing the right answer from the noise and understanding whether the question being asked is the right one in the first place. I believe professional judgement, clear communication and long-lasting trusted relationships will become even more important.

What advice would you give to your future self?
Keep making time to think. It is easy to become caught up in what's urgent at the expense of what's important, but some of the best decisions come from stepping back and taking a longer-term view.

Tell me something about yourself that others may not know.
My surname is unusual, although tax practitioners might think otherwise, as there seem to be a disproportionate number of Emblems in the profession. Setting the bar ridiculously high was my great-grandfather, Bernard Emblem, who was knighted by the Pope for his services to taxation. This apparently gave him the honour of being allowed to ride a horse into St Peter's Basilica in Rome, although sadly I don't think he ever took advantage of the opportunity!

Contact

If you would like to take part in A Member's View, please contact: Melanie Dragu at: mdragu@ciot.org.uk

Obituary

Tribute to Ray Magill

We were saddened to learn that Ray Magill passed away in July.



Not only was Ray a CIOT member for over 60 years, but for much of his professional life and throughout his retirement he was a truly dedicated volunteer on CIOT technical committees and working groups.

Ray served on various technical committees, including the Private Client (UK) Committee, its predecessor committees, the Pensions Working Group, and latterly the Digitalisation and Agent Services Committee.

The tax treatment of charitable donations across the taxes was a longstanding area of focus for Ray. HMRC paid a fitting tribute to him as a tenacious advocate for the charity sector who made a great contribution to simplifying and improving HMRC charity tax guidance for charity trustees and volunteers.

Ray's service to CIOT as a volunteer was marked by his deep technical expertise, which extended across large areas of the tax code. The range and breadth of Ray's knowledge of tax legislation meant that he often suggested ways in which draft legislation in one part of the code might be improved by aligning it with other provisions.

John Barnett, Deputy President of CIOT, recalls that 'Ray was already a veteran of the Capital Taxes Committee (as it then was) when I joined it in 2005. His was always the quiet but authoritative voice in the corner of the room, never bombastic or assertive, but someone who would quietly chip away at a technical issue and, through persistence, eventually convince you that he was right – as he inevitably was. You could always rely on him to volunteer to research a technical point, no matter how obscure, or to beaver away at a point which had caught his attention. He brought years of experience to the role and could often make connections (to other taxes or to past comparators) which no-one else had thought of. We will miss his wisdom and quiet wit hugely.'

Emma Chamberlain OBE, CIOT Committee chair, adds that Ray was one of the few advisers who really grappled with pre-owned assets income tax and enjoyed asking the Private Client Committee (with a glint in his eye) questions that no one but he could answer on that subject.

For us, as technical officers, Ray was an invaluable volunteer – courteous, kind, patient and always generous with his time and knowledge. We will miss Ray's wise counsel and extensive technical tax knowledge from which the institute has benefited for so many years.

Kate Willis, CIOT Technical Officer

Events

Build your knowledge and network with ATT events

From expert-led webinars to lively peer discussions, your ATT membership gives you access to a varied programme of events designed to keep your CPD up to date, deepen your knowledge and grow your professional network.

Our free quarterly, member-only webinars are a great place to start. The technical team shares practical insights into key tax issues, with previous sessions covering pensions and inheritance tax, cryptoasset taxation, and changes to the residence and domicile regime. Our most recent webinar on 18 November examined the main tax stories emerging from October's Budget and the subsequent Finance Bill. Recordings are available at www.att.org.uk/att-webinars.

Plans are underway for our 2027 member webinars. We also plan to reprise our full-day conferences, with in-person sessions in London and Scotland and an online option. If you have suggestions for topics, please contact the technical team at atttechnical@att.org.uk.

ATT events are about more than technical CPD. They also create opportunities to connect with fellow members, exchange knowledge and experience, and strengthen your professional network.

This year we launched online drop-in sessions for ATT members working in industry or in-house. These free sessions allow members to discuss issues with peers, share advice and raise questions with the ATT technical team. Each session has a different theme. In November we looked at AI, while future sessions will cover indirect taxes, cross-border and international issues, corporate tax, and working with external advisers and internal stakeholders. Members can attend whichever sessions are most relevant to their work. More information, including how to sign up, is available at tinyurl.com/wa4pc5et.

Following the success of our MTD discussion groups earlier this year, we will extend these into 2027 and broaden their scope to consider issues facing sole and small practitioners. These free, informal sessions will allow members to share experiences, exchange practical tips and discuss challenges with peers. We plan to launch these in February, so look out for further announcements.

Explore upcoming ATT events on our events webpage at www.att.org.uk/events. We want our programme to reflect members' needs, so if there is a topic or format you would like us to consider, email atttechnical@att.org.uk.