

WATSON

Making Tax Digital for Income Tax – Exemptions

In just over six months the first group of taxpayers will be required to join HMRC's Making Tax Digital for income tax (MTD IT) programme

Some individuals may be able to avoid this by claiming an exemption. As the financial thresholds for MTD IT decrease over the next few years it's important to act now.

Self-employed taxpayers and landlords with qualifying income of £50,000 or more on their 2024-25 tax return will be required to comply with MTD IT from April 2026. This means they will have to maintain digital records; send quarterly updates to HMRC; and submit an annual tax return via MTD-compatible software.

Some types of income are exempt from MTD. These include partnership income and qualifying care income. This does not mean that partners and carers are automatically exempt, as any other qualifying income, for example if you are also a landlord, could bring you into the scope of MTD IT. Other automatic exemptions include trustees and personal representatives, individuals without a National Insurance Number and non-resident companies.

It may be possible in some circumstances to apply for an exemption from MTD IT on the grounds of 'digital exclusion'. This applies to

practising members of a religion whose beliefs are incompatible with using electronic communications or keeping electronic records; or those for whom it is not 'reasonably practicable' to comply with MTD IT due to age, disability, location or any other reason.

An application will need to be made to HMRC for digital exclusion from MTD IT, even where the taxpayer already has a digital exclusion exemption from MTD VAT, with HMRC having 28 days to either grant or deny the application. Further details on who might qualify for digital exclusion and how and when to apply are expected in due course. HMRC has said that it expects the number of digitally excluded taxpayers to be low. If you think you might be eligible, contact us to discuss your situation and, if appropriate, we can help you with your application when the information is available.

We have been preparing to help clients navigate MTD IT for some time. If you are self-employed or a landlord and your total gross income from trading and/or property is £50,000 or more on your 2024-25 tax return, we can help you get your business MTD-ready.

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Winter Fuel Payment Clawback

Thousands of eligible pensioners will receive a Winter Fuel Payment this winter. Whether or not you can keep the money will depend on your taxable income

If you were born before 22 September 1959 and you live in England, Wales or Northern Ireland you could get up to £300 to help with the cost of heating your home this winter. This is known as the Winter Fuel Payment. If you live in Scotland you may be able to claim the Pension Age Winter Heating Payment instead.

Eligible individuals in England and Wales will receive a letter from HMRC in October or November telling them how much Winter Fuel Payment they will receive and which account the money will be transferred into. This will usually be the same account as your state pension or other benefits. The amount is based on when you were born and your circumstances between 15 and 21 September 2025. Other benefits will not be affected by the Winter Fuel Payment.

If you do not receive a letter and you think you should be eligible, you need to make a claim. We can help you with this.

Don't spend it all at once

You will only be entitled to keep your Winter Fuel Payment if your total taxable income will be less than £35,000 for the tax year ending in April 2026. This includes income from pensions but not income that

is not taxed, such as interest from an ISA. It is our understanding that income for this purpose will be based on total taxable income, rather than adjusted net income, so there will be no deduction for Gift Aid or similar payments. There is a tool to check whether your income is over the threshold on the HMRC website. Where an individual's income exceeds the threshold, HMRC will take the Winter Fuel Payment back either by changing their tax code for the 2026-27 tax year or adding it to the self-assessment tax return for 2025-26. From April 2027, it is expected that HMRC will recover any Winter Payments in the same tax year they are paid.

The clawback is all or nothing, meaning that if taxable income is even £1 over the £35,000 threshold, all of the Winter Fuel Payment will be lost. It is possible to opt out of receiving the payment but the deadline to opt out for this winter was 15 September 2025.



Class 2 NIC Error Update

The issue affecting many self-employed taxpayers in relation to Class 2 national insurance contributions (NICs) is unlikely to be resolved before the end of September

From the 2024-25 tax year, self-employed individuals with profits in excess of £6,725 no longer need to pay Class 2 NICs. Instead those taxpayers will receive a national insurance credit to secure their access to contributory benefits such as the state pension.

Earlier this year it was reported that several taxpayers had been sent letters by HMRC telling them that their tax return for 2024-25 had been amended to add a Class 2 NIC liability. This was an error by HMRC and the department has been working to put it right.

In the latest update, HMRC says that it has already corrected the Class 2 NIC position of taxpayers where the information it holds allows. It will correct the remaining records when the issue has been resolved, which is unlikely to be before the end of September, and those individuals will be notified. Some taxpayers will then be sent a new SA302 tax calculation which they will have 30 days to query.

If you receive a letter from HMRC 'correcting' your NICs to the original (correct) figure, no further action will be needed and you will not be sent a new SA302.

HMRC has also confirmed that until the issue has been fixed, erroneous Class 2 NIC letters will continue to be sent to taxpayers, but any incorrect adjustments will be reversed before they affect the 2024-25 tax liability. These letters can also be ignored.

Any individuals who have made a payment for the additional NICs incorrectly charged by HMRC will receive a refund or a credit added to their self-assessment account.

If you have received a letter from HMRC in relation to your 2024-25 Class 2 NIC liability, we can help you decide what action – if any – you need to take.

Cryptoasset Reporting Framework

From January 2026 UK businesses facilitating cryptoasset exchanges must collect user and transaction data and report it to HMRC under the new cryptoasset reporting framework (CARF).

The first report, which will cover the period from 1 January to 31 December 2026, must be submitted to HMRC by 31 May 2027.

If you hold cryptoassets (such as bitcoin; stablecoins; and non-fungible tokens) you will need to give certain personal details to every cryptoasset service provider you use, to make sure you are paying the right tax.

Failure to provide this information may result in a fine of up to £300. Service providers face fines of up to £300 per user for incomplete or inaccurate reporting.

The self-assessment tax return for 2024-25 includes new boxes for reporting gains and losses from cryptoassets separately from other assets. The CARF will allow HMRC to reconcile taxpayers' records with information received from service providers to ensure the correct amount of tax is paid.

If you own (or have owned) cryptoassets, contact us to discuss what you need to report to whom and confirm you are meeting your tax obligations.



Additional Tax Return Complexity for Company Directors

There are new reporting requirements for close company dividends from 2025-26 onwards

In 2022, the Government announced plans to improve the data HM Revenue & Customs (HMRC) collects from business owners and directors of UK resident companies who are required to file self-assessment tax returns.

The changes are part of the Government's attempt at reducing the tax gap by giving HMRC more visibility over dividend income and helping them identify unpaid or underpaid tax more effectively.

Currently, the Employment pages of the self-assessment tax return, form SA102, require the taxpayer to declare if they are a company director and whether the company is a close company.

Broadly, a close company is a UK company that is under the control of its directors or five or fewer participators (e.g. shareholders) meaning the vast majority of small family run business, who are set up as limited companies, will be within this definition.

For the 2025-26 tax year onwards, a director of a close company will be required to provide the following information for each relevant close company:

- ▲ the name and registered number of the close company;
- ▲ the value of dividends received from the close company for the year. The dividends will be declared separately from other UK dividends; and

- ▲ their percentage shareholding in the company during the year. If the percentage shareholding changes during the year, the person should record the highest percentage shareholding.

In most cases the additional information required should be straightforward, however, it is still not clear how individuals who hold shares of differing classes of shares and rights attached thereto, would be expected to calculate their percentage share. These new disclosure requirements could be challenging for those with more complex shareholding structures or who have changed ownership during the year. We await further guidance from HMRC, which will hopefully be forthcoming before 6 April 2026!

Failure to comply with the new requirements could result in a penalty of £60 and will apply to individual, trust and partnership self-assessment tax returns from 2025-26.

The increased scrutiny on dividends highlights HMRC's ongoing focus on owner-managed businesses.

Similar changes, also taking effect from 2025-26 for unincorporated businesses, will make it mandatory to include a start and/or end date where a business operated by the taxpayer commences and/or ceases during a tax year.



Business and Agricultural Property Reliefs

Draft legislation has been published giving more insight into how and when proposed restrictions to two major inheritance tax (IHT) reliefs will be implemented

In the Autumn 2024 Budget (30 October 2024), the Chancellor proposed significant changes to the legislation for Agricultural Property relief (APR) and Business Property Relief (BPR). These reforms are set to come into effect from 6 April 2026.

How do APR and BPR currently work

APR and BPR are long established reliefs which can reduce the inheritance tax (IHT) liability of an estate, which is payable on death or certain other situations.

APR reduces the value of the agricultural property and BPR reduces the value of business property. Subject to certain conditions, the relief is either 100% or 50%, depending on the type of asset and how it has been used, with no limit on the amount of relief that can be claimed.

APR and BPR can therefore significantly reduce, or even eliminate, any charge to IHT arising.

Effect of the reforms from 6 April 2026

Whilst the reforms do not remove APR and BPR, their changes will affect:

- ▲ Individuals leaving assets in their estate on death.
- ▲ Individuals making lifetime gifts to another person or gifts into trust; and
- ▲ Trusts subject to the 10-year anniversary charge and charges on capital distributions.

From 6 April 2026, the full 100% rate of APR and BPR will only apply to the first £1 million of combined agricultural and business property. The new rules will apply to deaths from 6 April 2026, but transitional rules could affect gifts from 30 October 2024.

If the total value of the qualifying property to which 100% relief applies exceeds £1 million, the allowance will be split proportionately across the type of property.

Amounts exceeding £1 million will receive relief at 50% and assets automatically receiving 50% relief will not use up the allowance.

The £1 million allowance will not be transferrable between spouses or civil partners but will refresh every seven years. This means that existing wills may need to be rewritten and/or assets transferred between spouses to make optimal use of the allowance.

BPR will be reduced from 100% to 50% on all shares not listed on a recognised stock exchange, such as those listed on the Alternative Investment market (AIM).

IHT can be paid over 10 interest free instalments for assets qualifying for APR/BPR.

What Next?

If you think you may be impacted by the reforms and would like advice please contact your usual Watsons team member to arrange a meeting



Welcome to the Team!

We're excited to introduce the newest members of our team! Please join us in giving a warm welcome to the following team members:

Alison Rayment – PA to Joe Funnell

Daniel Martirossian – Tax Manager to Joe Funnell

Eliza Hobden – Trainee Accountant

Preston Smithers – Trainee Accountant

Umbrella Companies

Legislation update for umbrella companies

Umbrella companies are often used by temporary or contract workers who are paid through them, rather than directly by recruitment agencies or end clients.

On 21 July 2025, following a consultation, the Government published draft legislation which, if enacted, will come into effect from 6 April 2026.

The legislation will make recruitment agencies or end clients **jointly and severally liable** for any amount required to be accounted for under the PAYE and NIC provisions where an umbrella company forms part of a labour supply chain.

As under the current rules, the umbrella company has primary responsibility for deducting PAYE and NIC from the pay of the workers being supplied.

However, if the umbrella company fails to meet their obligations, HMRC will now pursue:

- ▲ the recruitment agency that contracts directly with the

end-client; or

- ▲ the end-client if there is no recruitment agency in the chain and they contract directly with:
 - An agency that is not UK resident;
 - An agency that is connected with the umbrella company; or
 - The umbrella company itself.

If neither the agency that contracts with the end-client nor the end-client are UK resident, the UK agency that sits closest to the end-client in the labour supply chain will have joint and several liability with the umbrella company.

These new rules do not apply to situations whereby a worker supplies services via a personal service company rather than using an umbrella company. The Off-payroll labour rules/IR35 rules should still be referred to in these circumstances.

If you or your business regularly interact with umbrella companies as a worker, an intermediary or the end-client, contact us to discuss how these changes will affect you.

Some Key Tax Dates

- 22 Oct** Pay tax and Class 1B National Insurance if you have a PAYE settlement agreement (by 18 October if paying by cheque)
- 31 Oct**
 - Deadline to file your 2024-25 self-assessment tax year return if filing a paper return
 - Inheritance tax due for deaths and chargeable lifetime transfers (other than on death) in April 2024
- 7 Nov** for taxpayers that have voluntarily signed up for Making Tax Digital for Income Tax Self Assessment (MTD for ITSA):
 - MTD for ITSA: Quarterly return due, covering the cumulative tax year to date – i.e., period from 6 April to 5 October 2025 (for taxpayers who have not made a calendar quarter election).
 - MTD for ITSA: Quarterly return due for taxpayers who have made a calendar quarter election. For the first tax year for which the election has effect, this quarterly return will cover the period from 6 April to 30 September 2025 (for subsequent tax years, it will cover the period from 1 April to 30 September)
- 26 Nov** Autumn Budget to be delivered at 12.30pm
- 30 Dec** Submit online personal tax return for 2024-25 if taxpayer wants HMRC to collect tax underpayment (below £3,000) through PAYE coding

Should you wish to speak with us about a specific matter, or just to be a sounding board or for a chat, please do not hesitate to give us a call on 01323 842119.

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