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WATSON

Mandatory Payrolling of Benefits Delayed

HMRC has confirmed that the mandatory payrolling of benefits in kind (BIKs) will be delayed to April 2027, giving businesses more time to get to grips with the process.

Previously planned for April 2026, the change will require businesses to report and process income tax and Class 1A national insurance contributions on BIKs in real time, rather than declaring them annually via the P11D (used to detail certain expenses and benefits that they are liable to pay tax on). Currently most BIKs can be processed via the payroll on a voluntary basis. The delay was announced to recognise the need to provide more time for employers, payroll professionals, software providers, tax agents and others to prepare for the change but do not underestimate the task of getting ready.

How will it work?

To report BIKs via the payroll, the payslip should be populated each pay period with an amount equivalent to what would be shown on the P11D divided by the number of pay periods in a year. For example, on a monthly payroll an annual dental insurance benefit of £3,000 would be declared as £250 per pay period. This should be pro-rated if the employee starts or leaves mid-month or the value of the benefit changes during the year.

If an employer is not aware of the provision of a BIK until after the start of the tax year, they should payroll it for the rest of that tax year. Where necessary, a reasonable estimate should be used.

Individuals such as non-executive directors who do not receive a salary but do enjoy BIKs will need to be added to the payroll for those BIKs to be taxed.

Will all benefits need to be payrolled?

The P11D will still be available for two specific BIKs which will be excluded from mandatory payrolling: beneficial loans and employer-provided accommodation. However, these will be eligible for voluntary payrolling for the first time from April 2027.

We can help

If you outsource your payroll, you will need to send timely and accurate details of all BIKs to the provider. We can help you collate the necessary information in preparation for the change and advise if any changes are necessary to your data to assist in the switch to payrolling benefits.

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OUR SERVICES

- Corporate strategy
- Accounting & audit
- Business development
- Taxation
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- Payroll
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Childcare Costs - Don't Miss Out

Tax-free childcare

Many working families will now be arranging childcare for the school summer holidays and the start and end of the school day from September. The Government's tax-free childcare scheme could provide up to £2,000 a year per child, or £4,000 if the child is disabled, towards the cost of wraparound childcare and holiday clubs.

For every £8 deposited in a tax-free childcare account the Government will top it up by £2 up to a maximum of £500 (or £1,000 if the child is disabled) every three months.

To qualify for the scheme the parent and their partner (if they have one) must earn, or expect to earn, at least the national minimum wage or living wage for 16 hours a week on average; each earn no more than £100,000 per annum; and must not receive universal credit or childcare vouchers.

Parents can use the scheme to pay for childcare for children aged 11 or under, or up to 16 if the child has a disability. Childcare is defined as 'any form of care or supervised activity for a child that is not provided in the course of the child's compulsory education'.

Tax-free childcare claims are primarily made online via GOV.UK. If you do not have online access or find using the online system difficult you should contact the tax-free childcare helpline on 0300 123 4097.

Extend child benefit

HMRC has reminded parents of the deadline to extend child benefit for 16 to 19-year-olds who are continuing in full time education from September. For 2025-26 child benefit is worth up to £1,355 a year for the first or only child, and up to £897 a year for each additional child.

Payments will automatically stop on 31 August on or after the child has turned 16 unless parents renew their claim by that date.

The claim can be extended using the HMRC app or on GOV.UK.

If you or your partner earn £60,000 or more, the higher earner will be liable to repay some or all of the child benefit via the high-income child benefit charge (HICBC). Where the child is under the age of 16 and one of the parents is not working it is often worth claiming child benefit and either paying the HICBC or opting not to receive the child benefit payment to protect the non-working parent's entitlement to contributory benefits. However, once the child turns 16 they will be registered for national insurance so the qualifying contributory years are no longer available to the parent.

We can help you ensure you are claiming all of the child related support you are entitled to.

Guidance for Non-Doms with Foreign Income and Gains

With effect from 6.4.25 the preferential tax treatment enjoyed by UK resident individuals whose permanent home is outside the UK ('non-doms') has been withdrawn.

Before this date, non-doms could benefit from the remittance basis of taxation for up to fifteen years, essentially exempting their offshore income and gains from UK tax unless remitted to the UK.

A new residence-based system

In its place a new residence-based system has been introduced whereby qualifying new arrivals to the UK can apply for foreign income and gains ('FIG') relief, meaning they will not be taxed on their FIG - regardless of whether remitted to the UK - for the first four consecutive years of UK tax residence. After this period they will be taxed on their FIG as UK income or gains. To qualify for FIG relief the individual must not have been resident in the UK in any of the ten years prior to their arrival.

Claiming FIG relief is optional and you can choose to claim it on some or all of your FIG. A separate claim must be made for each source of income and/or gain on the self assessment tax return. Your entitlement to certain other reliefs and allowances may be affected, for example the tax-free personal allowance for income tax and annual exempt amount for capital gains tax (CGT) will be lost if FIG relief is claimed. The relief will also be included in the adjusted net income calculation for tax-free childcare benefits and the high-income child benefit charge.

We can help you decide whether to claim FIG relief and help you submit the claim(s).

Individuals who are not eligible for relief under the new system or who decide not to apply for FIG relief will be subject to tax on their foreign income in the same way as any UK taxpayer.

Transitional arrangements

Transitional arrangements are in place for CGT on foreign capital assets. Individuals who have claimed the remittance basis in any of the years from 2017-18 to 2024-25 can rebase those assets to their market value at 5.4.17. Foreign assets held in trusts are generally not eligible for rebasing.

A temporary repatriation facility will allow existing non-doms to remit previously accrued foreign income and gains to the UK after 6.4.25 at a reduced rate. This will be a flat rate of 12% for 2025-26 and 2026-27 and 15% for 2027-28.

Non-dom inheritance tax

A new residence-based system has been introduced to replace the domicile basis for inheritance tax from 6.4.25. This will see IHT being charged on worldwide assets for individuals who have been UK resident in ten out of the last twenty tax years. Such individuals remain within the scope of IHT for up to ten years following exit from the UK, and the IHT 'tail' will depend on how long they were resident in the UK.

This should mean that individuals with a domicile in the UK will be outside the scope of IHT on non-UK assets if they have not been UK resident for ten out of the last twenty tax years. UK assets will remain within the scope of IHT for all individuals irrespective of residence status.

If you have received income or gains outside the UK and are not sure where you stand under the new rules, contact us.

Multi-Agent Access for MTD IT

Making Tax Digital for Income Tax (MTD IT) is fast approaching, with the mandation date for sole traders and landlords with qualifying income of £50,000 and above set firmly at 6.4.26.

In addition to the annual tax return, those mandated to comply with the MTD IT requirements will need to submit cumulative quarterly updates of their income and expenses to HMRC and maintain digital records of their transactions using HMRC-approved software. Multi-agent access will allow taxpayers to appoint a main agent to deal with their tax return at the year end and one or more supporting agents to deal with the record keeping and quarterly updates.

The supporting agent, for example a bookkeeper or letting agent, will be more restricted in the tasks they can carry out on your behalf. The main agent will be able to do almost everything that you, the taxpayer, can do. Where a taxpayer has income from property and separate trading income they may choose to appoint different supporting agents for each. It will be possible to appoint multiple supporting agents but only one main agent to oversee your tax affairs and deal with your annual tax return.

When appointing a supporting agent, be careful not to designate them as the main agent as doing so will automatically remove the existing agent's access. This may lead to delays in your year end tax return and potential penalties for late submission. Please contact us if you need our help navigating the MTD IT requirements.

Class 2 NIC Calculation Error

From the 2024-25 tax year, self-employed individuals with profits in excess of £6,725 no longer need to pay Class 2 national insurance contributions (NIC).

Instead those taxpayers will receive a national insurance credit to secure their access to contributory benefits such as the state pension.

Several of the professional bodies have received reports from their members that Class 2 national insurance is being incorrectly included in SA302 tax calculations for 2024-25. Following submission of their tax return affected taxpayers have received letters from HMRC informing them that their return has been amended in one of three ways. HMRC has either:

- added £179.40 to the computation which should not have been added and needs to be removed;
- added £179.40 to the computation which needs to be removed and wrongly increased the tax liability by double this amount; or
- amended the Class 2 NIC amount to zero, which is in line with the original submission. In this instance no further action is required and the letter can be ignored.

This issue has been reported to HMRC and the department is investigating it as a matter of urgency. We can help you check whether your tax liability and/or Class 2 NIC have been amended incorrectly by HMRC.

Inheritance Tax (IHT) – Changes Coming

As announced at the Autumn Budget 2024, the government are reforming the Agricultural Property ('APR') and Business Property Reliefs ('BPR') available from 6 April 2026.

Currently, 100% relief is given to all agricultural and business property. Under the new rules, 100% relief will only be allowed on the first £1 million of combined agricultural and business property. Amounts exceeding the £1 million allowance will receive relief at a rate of 50%.

The £1 million allowance is not transferable between spouses.

The allowance will cover the following transfers:

- property in the estate at death
- lifetime transfers to individuals made in the 7 years before death
- chargeable lifetime transfers where there is an immediate lifetime charge.

Succession Planning

The response to the reforms has been largely negative, with the view from many commentators that businesses and farms would need to be sold to afford the IHT due on death.

Under current rules, the benefit of qualifying property obtaining 100% APR and BPR deters business owners from gifting their business/farms to the next generation before death. Aside from the IHT benefit, there are capital gains tax ('CGT') advantages as the value of the estate benefits from an uplift to probate (market) value on the date of death.

However, in some cases, it could still be possible to pass a large proportion, if not all, of the family business on to the next generation free from IHT and CGT if the transfer takes place at least 7 years prior to the date of death.

Whilst the gift of property would normally give rise to an immediate CGT charge, subject to certain conditions, it could be possible to make an election to hold over (defer) the gain. This means that the CGT base cost of the property for the next generation would be the same as it was for the person making the gift. Arguably, this would lead to a higher CGT charge for the next generation if they chose to sell the property, however, if the asset is continually being passed down to the next generation in perpetuity, this point is immaterial.

If you believe that the IHT reforms could affect you and your plans to pass down your company shares, farms or any other business or agricultural property to the next generation, please do get in touch with us so that we can help review your position and look at planning opportunities to help mitigate tax burdens. The earlier you start thinking about this, the more we can do to help!

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:

Dayna Mitchell – Trainee Accountant
Sophie Taylor – PA to Paul Severn
Francesca Kennett – Accounts Team
Jamie Taylor – Corporate Team

Salaried Members of LLPS

The salaried members rules are an anti-avoidance measure designed to prevent limited liability partnerships (LLPs) from disguising remuneration paid to members as profit share instead of employment income.

If the rules are triggered, the member's earnings are subject to PAYE and national insurance as though they were an employee. A member of an LLP is deemed to be an employee under these rules if the following three conditions are all met:

Condition A: it is reasonable to expect that at least 80% of their remuneration will be a fixed or variable salary that is not dependant on the profits or losses of the LLP;

Condition B: they do not have significant influence over the affairs of the LLP; and

Condition C: their capital contribution to the LLP is less than 25% of their expected salary.

In February 2024 HMRC updated its guidance in regard to Condition C to suggest that the anti-avoidance rules could be invoked if a main purpose of the capital contribution was to keep the member outside of the salaried members rules.

Reversing this somewhat controversial amendment, HMRC has changed the guidance again, accepting that a genuine contribution made by a member, intended to be enduring and giving rise to real risk, will not trigger the anti-avoidance rules. As long as the member puts in at least 25% of the amount they plan to take out, they can continue to be taxed as self-employed on their profit share if their capital contribution is genuine.

We would advise all LLPs to review their profit share and capital contribution arrangements to ensure compliance with the salaried members rules. We can help you with this.

Some Key Tax Dates

31 July 2025	• The second payment on account for self-assessment is due on 31 July. Make sure, if you are self-employed or have additional sources of income, to settle any outstanding tax
5 October 2025	• Deadline to notify HMRC if you're required to file a self-assessment tax return
22 October 2025	• Pay tax and Class 1B National Insurance if you have a PAYE settlement agreement (by 19 October if paying by cheque)
31 October 2025	• Deadline to file your 2024-25 self-assessment tax year return if filing a paper return

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.