

# NEWSLETTER

Issue 4 2025

## Winter Fuel Payment options

Under new rules, more pensioners are now eligible for the Winter Fuel Payment in England, Wales, and Northern Ireland, and the Pension Age Winter Heating Payment in Scotland.

Where taxable income is more than £35,000, however, HMRC will seek to recover any payment received. Recovery will be made by adjustment to the tax code for 2026/27, or via the Income Tax self assessment tax return for 2025/26. For many people, these additional processes may be an unwelcome inconvenience.

As payments are usually made automatically to those eligible, you have to opt out of payment to avoid the payment and claw back process. Deadlines apply for the opt-out process, however, and for this year, these have now passed in all parts of the UK. This unfortunately means that unless there is a last-minute rethink at HMRC, anyone who has not opted out already will fall into the payment and recovery cycle as regards winter 2025/26.

As regards the future, the first year you can now opt out of is 2026/27. If you live in England, Wales or Northern Ireland, you will be able to opt out for 2026/27 and subsequent years from 1 April 2026. If you live in Scotland, you can apply to opt out now, using an online form accessed via mygov.scot. This, however, will only impact payment from winter 2026/27 onwards.

## Inheritance Tax: no ease up on changes

### Inheritance Tax (IHT) net set to widen.

Changes announced last year are set to bring a radical overhaul of two key IHT reliefs, business property relief (BPR) and agricultural property relief (APR), from 6 April 2026.

The real game changer is the significant restriction in the amount of relief at 100% available on the value of qualifying agricultural property and relevant business property in an estate or settlement (trust). At present, availability of 100% relief on qualifying property is unlimited, but the new rules cap this, with the introduction of a £1 million allowance. The outworking will be that many more people will now need to fund an IHT liability in the future.

#### In outline

- the new £1 million allowance will apply to the combined value of business and agricultural assets in an estate qualifying for 100% BPR and/or 100% APR
- the £1 million allowance will also apply to the combined value of relievable agricultural and business property in trusts
- any qualifying relievable property above this £1 million limit will attract relief at a lower rate of 50%
- the £1 million allowance will increase in line with inflation from 6 April 2030.

**What might this mean for you?** The first thing to take on board is that the £1 million limit is a per person limit. It won't be possible to transfer unused allowance between spouses or civil partners. Anything unused will be lost.

Advance planning will become key, to ensure maximum use is made of each individual limit.

The changes will need consideration alongside other IHT rules, like those on lifetime gifting; and an assessment of how IHT interacts with other taxes. There will also be the need to consider how any future tax liability arising on death will be paid. For some business owners, this may mean fast forwarding plans to pass assets to the next generation - or restructuring how the business is owned and run.



We appreciate that these decisions may involve a major reorientation in outlook, and could require especially sensitive handling. Nevertheless, though there could be last-minute adjustments to the new rules, the expectation must now be that these changes are definitely on the way, and plans made accordingly.

In addition, further changes to IHT expected from 6 April 2027, will bring unused pension funds and death benefits within scope of IHT. These changes may also require planning, especially for those with significant pension savings. Again, we can advise on the options that may be available.

Bespoke advice is always recommended, so please do contact us to discuss what these changes may mean for you.

# Employment status

It may not be as straightforward as you think.

When is a volunteer not a volunteer? When they're a worker as regards employment status?

It's a question that the Court of Appeal will be considering later this year, when it reviews the case of Coastal Rescue Officer, Mr Groom.

Mr Groom volunteered for many years for the Coastal Rescue Service (CRS). The relationship unravelled when Mr Groom was subject to disciplinary activity, and asked to be accompanied by a trade union representative to the disciplinary hearing. He was turned down because the right would only apply if he was a worker, and the case ended up at the Employment Appeal Tribunal (EAT).

## Not the label that matters

It's not always appreciated that in law, there's no such thing as volunteer status. What matters isn't the label, but the legal status behind it. Depending on the exact details of the individual arrangement involved, there's a possibility that someone described as a 'volunteer' could, in fact, be held to be a worker, or an employee for employment status purposes. Both types of status carry significant employee rights and employer responsibilities, such as minimum wage and entitlement to paid holidays.

## Check the reality

One of the defining features of a worker is working under a contract. In this particular case, the CRS argued that there was no contract. Its handbook for volunteers said that the relationship was a 'voluntary two-way commitment where no contract of employment exists'.

The EAT, however, looked at the reality underlying all this. It noted that Mr Groom worked under a Volunteer Agreement, which set out minimum levels of attendance at training and incidents, and expectations to uphold the CRS' professional reputation. But what made the critical difference was the issue of payment.

Though many of Mr Groom's activities were unpaid, he was entitled to submit monthly claims for payment for others. The volunteer Code of



Conduct stated that such payment was 'to cover minor costs caused by your volunteering, and to compensate for any disruption to your personal life and employment and for unsocial hours call-outs'. Submitting claims was optional, and it was noted that some volunteers chose not to claim.

## Take-away message

The EAT ruled that 'the only proper construction of the documents is that a contract comes into existence when a [volunteer] attends an activity in respect of which there is a right to remuneration'. Mr Groom was therefore to be treated as a worker as regards activities for which he was paid.

The decision doesn't mean that every volunteer is to be classed as a worker. Even as regards Mr Groom, the question of whether worker status applied for unpaid activities was left to be decided at another time. Nevertheless, anyone using volunteers – or offering work experience or internships – will want to be sure they don't run the risk of their arrangements being classified as conferring worker or employee status. The Court of Appeal's verdict will be important to watch.

# CAPITAL GAINS TAX: GETTING PRIVATE RESIDENCE RELIEF

**If all else fails, two thousand bottles of wine might clinch the deal.**

For most people, getting the Capital Gains Tax (CGT) exemption known as Private Residence Relief (PRR) on the sale of their main residence is unproblematic. Broadly, PRR should be straightforward where:

- you have occupied the property as your main residence for the entire time you have owned it
- have not let part of it out
- have not used one part exclusively for business
- the grounds, including all the buildings, are less than about 1.25 acres

- you are UK resident for tax purposes
- and did not purchase in order to make a profit.

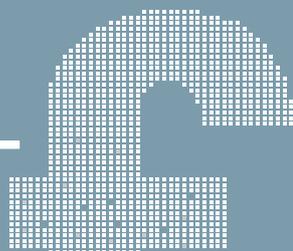
Whether one couple, Mr and Mrs Eyre, ticked all the right boxes was recently decided in a dispute over PRR on the sale of a house in Chelsea, purchased for just under £10 million, and sold - after a far from average refurbishment - for £27,750,000. The original house was demolished, with another built in its place. The new house boasted a car stacker for classic cars, and swimming pool featuring 'unbelievably expensive' marble. The Eyres moved in during 2013, and sold in 2015. HMRC raised assessments for £3.3 million,

arguing that the transaction was a venture in trade; and the house not the main residence.

The Tribunal disagreed. It held that the house had been purchased to live in, and that the period in which the Eyres lived there bore the hallmarks of genuine residence. The Eyres were on the electoral roll there, had their post redirected, and were liable for council tax there. The highly personalised refurbishment helped: it seemed unlikely that 2,000 bottles of Château Montrose would have been moved into the Chelsea cellar had the Eyres meant to sell and move on.

We are always pleased to advise on PRR – whatever you happen to have in your cellar.

# MAKING TAX DIGITAL LATEST



## HMRC presses on with roll-out of Making Tax Digital for Income Tax (MTD IT) - but changes plans for Corporation Tax.

MTD IT is now well on the horizon, with updated draft legislation published over the summer. Significantly, too, HMRC also published a Transformation Roadmap, underscoring the fact that digital self-serve is very much the direction of travel. According to this document, 'HMRC will look very different by 2030. Almost all our straightforward customer queries will be handled digitally or automatically with at least 90% of customer interactions being digital'.

### New rules for sole traders and landlords

MTD IT is the new way for income and expenses to be reported to HMRC. Under these mandatory new rules, sole traders and landlords must send updates, filed online using specific software, to HMRC every three months.

The change is being rolled out in phases from 6 April 2026, depending on the level of what is called 'qualifying income'. Entry to MTD IT is mandatory for sole traders and landlords:

- from 6 April 2026 if qualifying income is over £50,000 for the 2024/25 tax year
- from 6 April 2027 if qualifying income is over £30,000 for the 2025/26 tax year
- from 6 April 2028 if qualifying income is over £20,000 for the 2026/27 tax year.

### And other taxpayers

The government has also said that it will 'continue to explore how we can best bring the benefits of digitalisation to a greater proportion of the four million sole traders and landlords who have income below the £20,000 threshold'. This would seem to keep open the door to some sort of change for those below the £20,000 threshold in due course.

### MTD and Corporation Tax

The surprise announcement over the summer was the news that plans to introduce MTD for Corporation Tax have been abandoned. But this doesn't mean that there's going to be no change for the Corporation Tax population. Though there's no Plan B for MTD for Corporation Tax as yet, other comments in HMRC's Transformation Roadmap suggest things are unlikely to stand still.

The Roadmap says: 'HMRC will modernise services for Corporation Tax, beginning with a renewal of internal systems for Corporation Tax to provide the foundation for future improvements . . . developing an approach to the future administration of Corporation Tax that is suited to the varying needs of the diverse Corporation Tax population.'

'HMRC recognises that this population includes a very wide range of entities and situations, from small businesses to multinationals, from charities and property management companies to unincorporated associations. HMRC will work with stakeholders to identify changes that will provide the best outcomes . . . and is committed to consulting and providing early clarity and assurance on both the design and timing of changes.'

### Helping with digital compliance

HMRC's new world is all about digital compliance, and this is bound to entail challenges for the taxpayer. We are on hand to advise on the best way ahead for you and your business. Please don't hesitate to contact us with any queries you may have.

## Cryptoassets to become more visible to HMRC

From 1 January 2026, new reporting rules will give HMRC a much better picture of those who use cryptoassets service providers, and the transactions they are involved in.

Service providers will be required to collect certain specific data and report information on those who use their services. Those using them will have to supply identifying details, as well. There will be a penalty of up to £300 for users who fail to give details, or provide inaccurate information.

### International information sharing

It's all part of a move to standardise global reporting on cryptoassets, known as the Cryptoasset Reporting Framework (CARF), and the aim is to make cryptoasset transactions more visible for tax purposes, by the sharing of information between different countries, for example.



### How it will work

The rules impact any UK-based businesses which either transact cryptoassets on behalf of users, or provide a means for users to do so. Examples of cryptoassets services include online marketplaces where NFTs (non-fungible tokens) are bought and sold; wallet apps used to exchange bitcoin; and services where someone pays to have their cryptoassets portfolio managed.

If you use a cryptoasset service provider to buy, sell, transfer or exchange cryptoassets from this date, you will also be impacted by the rules. You will have to provide certain identifying details which will be used to link your crypto transactions with your tax records, and help HMRC to establish any tax liability. If you live in the UK, but use a non-UK cryptoassets service provider, that country's tax authority will share your information with HMRC if it is also signed up to this agreement.



The taxation of cryptoassets can be a complex area, but we are here to help. Please do contact us for further advice.



# Why HMRC is interested in directors' loan accounts

Many director-shareholders will have a loan account with their company.

This may be an outright short-term loan, or it may comprise the more informal, everyday transactions, whereby a director withdraws cash for personal use, or has personal expenses paid for by the company. Where, at the end of the accounting period, a director has borrowed more from the company than they have lent to it, the account is said to be overdrawn. Overdrawn balances are usually cleared by voting a dividend; paying a bonus; or 'releasing' or writing off the loan.

## HMRC campaign

HMRC has been writing to directors who had a director's loan between April 2019 and April 2023, which has been written off or released, and which might mean that taxable income has been missed off their Income Tax self assessment tax return.

It is advising that where there is income to declare for 2023/24, this is within the permitted time limit for making an amendment to the tax return. Where there is income to declare for 2022/23 or earlier years, it says that the digital disclosure service should be used. However, if you have any concerns in this area, we recommend discussion with us prior to any action.

## Directors' loans and tax

Although HMRC's current letters concentrate on the personal tax position of individual directors, directors' loans have implications for Corporation Tax and employment tax as well. It is therefore particularly important that such loans are correctly handled – whether or not you are on the receiving end of HMRC correspondence.

**Corporation Tax:** Where the company makes a loan to a director who is also a shareholder in the company, the loans to participators rules may come into play. These rules impact what are known as close companies, and many family companies fall into this category. Under these rules, if the loan is still outstanding nine months and one day after the end of the accounting period, a Corporation Tax charge (often called a s455 charge) can arise. There is no charge if the loan is to a director or employee; and is not more than £15,000; and the borrower works full time for the company but does not have a material interest in the company (broadly 5% or more).

**Employment benefit:** A benefit in kind can arise where a director's loan falls to be treated as a 'beneficial loan'. This is where the loan is interest-free, or the interest charged is less than the official rate (3.75% from 6 April 2025); and the total amount of the loan is more than £10,000 at any point in the tax year. The charge is calculated at the official rate of interest, less any interest actually paid. Under current reporting rules, though these are due to change, it is reported on the annual P11D. Employer Class 1A National Insurance is also due on the cash equivalent of the benefit.

**Writing off the loan:** Where a director's loan is written off in a close company, the director-shareholder is usually assessed on the amount of the loan written off as deemed dividend income – rather than as employment income. To write off a loan, it's always important to get the formalities right, with discussion and approval by shareholders at a general meeting, and a formal loan waiver documented by legal deed. This can help to push back a possible claim from HMRC that the loan write-off should be treated as earnings, and that National Insurance contributions are then also due. The position can be complex, and we can advise further here.

# The tax gap: keeping off HMRC's risk list

Figures for the tax gap are published each year. They highlight the difference between the amount of tax owed to HMRC and the amount actually paid. This year the gap has grown again, and now stands at £46.8 billion.

The headache for HMRC is how to drive down this loss of tax. One way it tries to do so is by analysing which taxes and which customer groups account for the biggest slices of the gap, and then concentrating compliance strategy wherever it perceives a risk.

## Key findings

The key findings for this year were:

- small businesses represent the largest proportion of the tax gap (60%)
- Corporation Tax accounts for 40% of the total tax gap
- the main behavioural reasons for the overall tax gap were failure to take reasonable care (31%), error (15%) and evasion (14%).

For these purposes, small businesses are defined as businesses with up to 20 employees, whose turnover is below £10 million. Small businesses are also the biggest contributors to the Corporation Tax gap, as well.

## Taking reasonable care

Significantly, the tax gap very much underlines the importance of taking reasonable care. It's not a term defined in statute, and whilst acknowledging that it will depend on the circumstances and abilities of each individual, HMRC expects that it will involve keeping and preserving sufficient records to make correct and complete returns; as well as finding out about how any unfamiliar event or transaction should be dealt with; and taking appropriate advice.

We are always happy to advise on any areas of concern, giving you the confidence that you are complying with your obligations. Please do contact us, whatever your question. We are here to help.

