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Key outcomes for businesses from Budget 2026



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Making Tax Digital shifts to automatic

HMRC has started automatically bringing into Making Tax Digital (MTD) individuals who are self-employed or are landlords who it believes should have registered but have not done so.

Those with an annual turnover over £50,000 based on their 2024/25 tax return were required to join MTD from 6 April 2026 but by mid-August nearly 300,000 had not yet done so.

The delay in sign-ups may be the result of the absence of any penalties for late quarterly updates, the first of which was due on 7 August 2026. However, each late submission from 7 August 2027 will attract a penalty point, and four points will result in a £200 penalty. Thereafter a further £200 penalty will be charged for each late submission.

Managing exceptions

Automatic sign-up may cause difficulties for people who do not have to join MTD despite annual turnover over £50,000. They include people who have ceased a trade or letting after 5 April 2025 or are exempt.

People for whom it is not practical to use electronic communications or keep digital records can request exemption. For 2026/27 you should do so as soon as possible. HMRC is now also accepting applications from taxpayers with turnover above £30,000, who will have to join MTD from 6 April 2027.

If you have been automatically signed up for MTD you must now acquire MTD-compatible software suitable for your business, start keeping digital records backdated to 6 April 2026, and submit quarterly updates. Those who have to join MTD in April 2027, including those whose entry to MTD was delayed, should also now be preparing to keep digital records.

The MTD for income tax requirements may encourage some sole traders to incorporate their business or even give up trading and seek employment. Limited companies do not have to use MTD, except for those registered for VAT, but there are many other factors that must be considered in deciding whether to incorporate. The decision is not at all straightforward and it is essential to get good professional advice.



> *If you have been automatically signed up you must now acquire MTD-compatible software, start keeping digital records and submit quarterly updates.*

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Coming soon: the pension saving trap

Families could face combined tax of up to 91% (93% in Scotland) on inherited pensions from April 2027 when pensions are brought into inheritance tax (IHT). The triple charge will hit some estates valued at over £2 million where the deceased was over 75 years old. There are things you can do to mitigate the impact, but this is a complex area and professional advice is essential.

In a worst case scenario, pension savings in an estate will be subject to IHT at 40%, adding on further IHT of 20% in the band where the residence nil rate band (RNRB) is being tapered away. Beneficiaries who inherit the pension will find it treated as income by HMRC and taxable at up to 45%, or 48% in Scotland.

What can you do?

There are some mitigating strategies:

- If possible, take the tax-free lump sum before you are 75 to avoid any income tax.
- Reduce the value of the pension in your estate by drawing income.
- Make lifetime gifts to your beneficiaries. You can use your annual exemption of £3,000, but larger gifts will escape IHT provided you survive seven years after the gift. If you survive between three and seven years, IHT will be tapered.
- You could set up a trust for your beneficiaries. However, trusts may themselves be liable to some IHT and there will be setting up costs and perhaps ongoing administrative costs.
- Gifts to charities are exempt from IHT and reduce the value of your estate. If you leave at least 10% of your taxable estate to charity, IHT on the rest will fall to 36%. If the donation brings your RNRB back into play, the IHT saving could be up to 60%.

Associated paperwork will increase

Furthermore, two technical notes issued by HMRC giving details of how pensions will be taxed indicate that executors of estates and pension schemes will face a heavy administrative burden.

Key outcomes for businesses from Budget 2026

The first Budget of the Burnham government brought no big surprises, although a wide range of measures were announced. The tax increases are quite modest compared with recent Budgets, although landlords and business owners will be shouldering a greater load.

Landlords

Landlords are subject to a further two-percentage-point tax increase on property income from 6 April 2027, on top of the two-percentage-point increase already announced.

- A higher-rate taxpaying landlord with property income of, say, £50,000 will see their tax bill increase by £2,000 next year.
- Not only will this discourage new landlords from entering the rental market, but there is a risk that tax increases will be passed on to tenants.

Relief for residential finance costs will increase to 24% in line with the new property basic rate. This means highly geared landlords will be less impacted from the changes. The new property income tax rates will not apply for Scottish landlords, although the devolved Scottish government has been given the power to also increase rates in the Scottish Budget in December.

Business giveaways

The small business rates relief threshold for qualifying retail, hospitality and leisure properties in England will increase from £12,000 to £18,000 for 2027/28, with the taper threshold going up to £21,000.

Mileage rates have been boosted: the 55p per mile rate for the first 10,000 miles is now permanent, and the higher mileage rate will increase from 25p to 35p per mile. These rates can be used by self-employed business owners and owner-managers using their own cars for business travel.

Business costs

Capital allowances: The 100% first year allowance for electric cars has not been



Credit: Lightspring/Shutterstock.com

renewed, and the main rate of writing-down allowance is to be reduced from 14% to 12%. Although much of a business's capital expenditure will still qualify for full expensing, a business spending, for example, £75,000 on two employee electric cars will see the first-year profit deduction reduced from £75,000 to just £9,000.

Minimum wage: From 1 April 2027, all minimum wage rates will increase by 3.9%. Although employees will welcome this higher than inflation uplift, many employers will struggle with the additional cost.

Making Tax Digital (MTD): Business owners will be disappointed that there is not going to be any slowing down in the introduction of MTD, although there are going to be no 2027/28 penalty points for those joining from April 2027.

Business gains

Business owners and owner managers will be relieved that the widely anticipated increase to the rates of capital gains tax (CGT) did not happen. However, the lifetime limit for business asset disposal relief is to be cut from £1 million to £500,000 from 6 April 2027.

- The relief is not as generous as it once was – just a six-percentage-point reduction from the higher rate of CGT, making it worth a maximum of £30,000 in the future.

- Business owners planning a sale or succession should review their plans, especially if the reduced limit has already been used up by previous disposals.

Although a new founders' relief, offering a 10% rate of CGT on up to £10 million of lifetime gains, is to be introduced from 6 April 2027, the qualifying criteria are quite restrictive and the relief will not be available to unincorporated business owners.

News in brief...

HMRC tax calculation errors

Be warned that many HMRC simple tax assessment calculations for 2025/26 are incorrect due to the personal allowance and reliefs being incorrectly allocated. Although this issue was first identified back in 2021, HMRC will need to manually correct the errors.

Small companies spared P&L reporting

Following an earlier pause in plans for small and micro businesses to have to file profit and loss (P&L) accounts and balance sheets with Companies House, the government has announced the plans have been dropped and the original start date of 1 April 2028 shelved. After meeting with small business representatives who highlighted the extra compliance costs involved, it will instead "explore options to streamline Companies House and HMRC filing processes".

Targeting landlords

HMRC has sent out letters reminding taxpayers of the need to disclose income they might have from let property; there may also be Making Tax Digital (MTD) requirements. Even if they have nothing to declare, taxpayers should respond by the date specified in the letter.



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Cryptoassets subject to CGT

HMRC continues to ramp up its enforcement on digital assets after 17,600 taxpayers reported £1.38 billion of taxable cryptoasset gains in 2024/25.

The sizeable amount of reported cryptoasset gains for 2024/25 follows the introduction of a dedicated section on the self-assessment tax return for that year. The gains reported for 2024/25 were concentrated among a small number of investors, with 900 taxpayers accounting for around 70% of the reported figure.

Compliance

Compliance has previously relied largely on voluntary disclosure. Investors need to be aware, however, that most cryptoasset service providers are now collecting cryptoasset data, with the first reports covering 2026 due to HMRC by May 2027. Armed with this information, it will be relatively easy for HMRC to check that disposals have been reported on an investor's self-assessment tax return.

Crypto investors have become one of HMRC's main capital gains tax (CGT) compliance targets, with nearly 65,000 warning letters sent during 2024/25.

Even small trades can count, with the result that many crypto investors could be facing penalties for non-compliance.

Stablecoins

Stablecoins are currently taxed in the same way as other cryptoassets, but this is set to change from 6 April 2027 when eligible stablecoins are expected to be treated in a similar way to money for tax purposes.

- Their disposal by an individual will therefore be exempt from CGT, so consider realising any losses before the change, and postponing gains.
- The definition of an eligible stablecoin will very broadly be a cryptoasset that maintains a stable value in relation to a fiat currency.
- Fiat currency or other assets will need to be held for the purposes of supporting the stable value.

Any interest subject to income tax

Most stablecoins are non-interest bearing, but if any interest-like returns are received from holding eligible stablecoins they will be treated as savings income subject to income tax.

The return of company cars

The number of company cars declined by 240,000 between 2015/16 and 2020/21, but a change in legislation has led to a bounce back. Employees using their own cars now also benefit from a 10p per mile increase for the tax-free mileage rates payable for business trips.

Company cars

The company car increase since 2020/21 is largely due to the beneficial tax treatment of electric and hybrid vehicles, with HMRC's latest figures for 2024/25 showing that there are now 920,000 directors and employees with company cars.



- The most marked change is with fully electric company cars. Before 2020/21, this type of company car was something of a novelty, but numbers have since taken off, accounting for just over half of the total by 2024/25.
- Add in low emission hybrid variants (CO_2 emissions between 1 and 50 grams per kilometre) and it's just about three-quarters of the total.
- The tax cost of having a low emission company car is significantly lower compared with a petrol or diesel variant.

For the current tax year, a fully electric company car comes with a 4% benefit-in-kind rate. This means that the annual tax cost for a higher–rate taxpaying director with, for example, a company–provided Tesla Y Performance Auto is around £990, despite such a car costing well in excess of £60,000.

Mileage rates

The 10p per mile increase – backdated to 6 April 2026 – only applies for the first 10,000 business miles driven each tax year, so 55p per mile can now be paid for the first 10,000 miles, with a 25p rate paid for subsequent mileage. For car and van trips, an employee can also be reimbursed an additional 5p per mile per passenger, so 70p per mile in total if three passengers are carried.

Sole traders and partnerships can use the mileage rates when working out their vehicle expenses to be deducted in calculating trading profits. The same for unincorporated landlords when calculating property income. However, in both cases, there is no additional allowance for passengers carried.

> *"The increase only applies for the first 10,000 business miles driven each tax year, so 55p per mile for the first 10,000 miles.*

Sweet and sour mix for savers

The October Budget was a mixed bag for savers. On the one hand, the £20,000 cash ISA limit has been retained, but on the other, tax rates on savings income will now rise by four percentage points from 6 April 2027, rather than the previously announced two.

Cash ISA and savings

The government had intended to restrict the cash ISA investment limit to £12,000 for those aged under 65, but this change will not now go ahead. The change means that all savers aged 18 or over will be able to continue to invest up to £20,000 each tax year into cash ISAs.

From 6 April 2027, the tax rates on savings income will be 24% (basic rate), 44% (higher rate) and 49% (additional rate). Given the increased tax cost of savings income, it is a good time to check that funds are being invested on the most beneficial basis.

First time buyer (FTB) ISA

The FTB ISA, to be introduced in April 2029, is aimed at first-time property purchasers buying a home worth up to £450,000, with the only requirement being that a saver is 18 or over.

The FTB ISA will provide a 25% government bonus up to a maximum bonus of £20,000.

Advantage: There will be no penalty for withdrawing funds from a FTB ISA; any unauthorised withdrawal from a LISA is subject to a 25% charge.

Disadvantage: LISA investors receive their government bonus every month, so a saver benefits from interest or investment growth on the bonus payments. However, the FTB ISA bonus will only be paid when a property is purchased, giving the LISA a distinct advantage.

There is no downside to opening a LISA now, and LISAs will continue to operate alongside the FTB ISA when this new ISA is eventually introduced.

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