

TAX



Getting in early for MTD

HMRC is on track to meet the April 2026 delivery date when Making Tax Digital (MTD) will be mandated for the first tranche of self-employed taxpayers. Although you may be tempted to put off setting up new working practices, there could be some advantages in joining early.

Phase one users

Self-employed taxpayers and landlords will have to use MTD from April 2026 if their turnover exceeds £50,000. Only self-employment income and rental income is included for this purpose, with income from other sources – such as employment income, partnership income and investment income – ignored.

Taxpayers with income of between £30,000 and £50,000 will not be mandated until April 2027. Although free to join early, they might prefer to wait a year.

Some caveats

The pilot scheme is live again after pausing in 2023, but it comes with some warnings, including:

- There is currently little MTD software available; just six suppliers to choose from, including two free offerings.
- Anyone using spreadsheets for record keeping will probably want to wait for bridging software to become available so that the spreadsheets can be linked directly with HMRC's systems.
- The new late filing penalty regime will immediately apply.

Some taxpayers falling into the correct income bracket are currently excluded from joining the pilot scheme, for example, partners in a partnership, those with jointly owned property or those claiming the married couple's allowance.

Advantages

One obvious advantage to joining MTD early is that users will get the chance to test a full cycle of submissions before MTD becomes mandatory. Early users will receive considerably more support during testing than those who are subsequently mandated. Early adopters will have access to a dedicated HMRC support team, with this team not limited to just dealing with MTD-related queries. They will also deal with wider self-assessment issues, so the wait times common with HMRC helplines can be avoided.



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BUSINESS

Rejected VAT registrations

HMRC rejected over 50,000 VAT registration requests last year, amounting to 17% of all applications. Some are refused because of suspected connection with VAT fraud, but others are turned down due to mistakes in completing the registration form.

Traders are not helped by the difficulty of getting through to a VAT helpline – the average wait is over 25 minutes and, often when the call is answered the officer cannot deal with the query but only directs the caller to guidance on the HMRC website.

Failure to register for VAT promptly when a business exceeds the £90,000 past or future turnover threshold is likely to result in penalties and hampers trading because the business cannot issue VAT invoices.

Getting it right

One reason for rejecting an application is because HMRC thinks the information given is incorrect. You must ensure that details of the type of business entity, its owners or directors, contact details, HMRC reference number and financial information are accurate and consistent with information HMRC might already have or that is held at Companies House. You have to give details of your bank account, which must be in the name of the business being registered.

Especially important are a full description of the business activities and the reason you want to register. You must state if you expect regular VAT repayments – HMRC will check your application particularly carefully. Seek professional help if you have any doubts.



Understanding adjusted net income

The personal savings allowance (PSA) and dividend allowance are often misunderstood because any income covered by the two allowances still counts towards a taxpayer's adjusted net income figure.

A small amount of dividend or savings income can therefore have a significant impact on your tax position.

Income levels

The key income thresholds are:

- **Net income of £50,270:** Go just a pound or two over this threshold and the PSA is reduced from £1,000 (for a basic rate taxpayer) to £500 (higher rate taxpayer). Also, the transferable marriage allowance will no longer be available.
- **Net income of £60,000:** At this level of income, a taxpayer may start to incur the high income child benefit charge. Although only a small additional amount of tax is going to be due if the threshold is exceeded



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by just a few pounds, it might mean having to file a self-assessment tax return for those otherwise paying tax through PAYE.

- **Net income of £100,000:** The personal allowance is tapered away once income exceeds £100,000, resulting in a high marginal income tax rate of 60%.
- **Net income of £125,140:** Entitlement to the PSA ceases altogether once income exceeds this amount.

Implications

It is important that savings and dividend income is accurately reported to HMRC, even if it is covered by the PSA or dividend allowance, because there could be tax implications you have not considered. Reporting an estimated figure on the assumption it will make no difference to your tax position could lead to a subsequent unexpected tax bill.

If a self-assessment tax return is not required, taxpayers can report details of their savings and dividend income to HMRC using their personal tax account.

Mitigation

There are two straightforward ways to mitigate the impact of having too much savings and/or dividend income. You could move savings and investments across to individual savings accounts where income will be exempt, or make pension contributions.

Careful planning is required where pension contributions are concerned because contributions must be paid before the end of the relevant tax year.

Scottish tax rates and thresholds differ.

CGT private residence relief

You are probably aware that the sale of a main residence is generally free of capital gains tax (CGT), but, when CGT does come into play, the rules can be complex.

Relief generally

For full relief, a property must be:

- your only or main residence throughout the period of ownership; and
- occupied subject to certain permitted periods of absence.

The permitted periods of absence include absences (for whatever reason) totalling up to three years, periods up to four years when employed elsewhere in the UK, and any periods (without limit) when employed overseas.

Normally, to qualify as a permitted period of absence, the period should be both preceded and followed by a period of occupation.

Nomination

If you have two (or more) properties, you can nominate which one should be treated as your main residence. Of course, there is no point nominating a property if it is not occupied.

What catches many people out is that a nomination can only be made during the two-

year period from when you first have more than one residence. This is a particular problem on marriage (or registration as a civil partnership) with each person owning a residence.

After that, a nomination can only be made if a new two-year period begins following a change in your combination of residences.

If no nomination is made, the question of which property is your main residence will be determined by HMRC according to the facts.

Reoccupation

Reoccupying a property prior to sale can be particularly beneficial if it converts unoccupied periods into permitted periods of absence.

However, a period of reoccupation must be genuine; it isn't sufficient for you to just spend a week at the property. It will be necessary to make the property your actual main residence again, with official bodies notified of the change of address.



Furnished holiday lettings uncertainty

The advantageous tax regime for furnished holiday lettings is due to be abolished from April 2025, but guidance has not yet been issued, and the new government adds to the uncertainty.

The most pressing concern for many owners will be whether full relief for their interest costs is going to cease from 6 April 2025 (1 April 2025 for companies). Currently, higher and additional rate taxpayers benefit from 40% or 45% tax relief respectively (higher relief ranges from 21% to 48% for Scottish landlords), rather than just the 20% basic rate tax reduction which is given to buy-to-let landlords.

The March Budget announcement amounted to just a couple of short paragraphs, and there has been no sign of the promised draft legislation, including an anti-forestalling provision. An additional hindrance is that HMRC has rejected a suggestion to introduce a brightline test which would clearly set out the distinction between property letting and trading activities: they consider the test unnecessary.