

Making Tax Digital: what you need to know



The UK's personal tax system is undergoing its most significant change since self-assessment was introduced in 1997.

Landlords, sole traders and the self-employed with gross annual income above £50,000 now have to comply with a new Making Tax Digital (MTD) regime.

Under the rules, which went live on 6 April 2026, affected individuals must keep digital records of income and expenses, use HMRC-approved MTD-compatible software, submit quarterly updates to HMRC and complete a final end-of-year declaration.

Under a phased roll-out, from April 2027 those with a qualifying income of £30,000 will fall within scope and from April 2028, those with qualifying income over £20,000 will be included.

If you are in one or more of these groups, our advice is to act now and accept we have moved into an era of more frequent and digital tax reporting.

Real time reporting

MTD represents a major shift from the traditional annual self-assessment process to a system that is much closer to real-time reporting. It will initially impact approximately 864,000 individuals and landlords across the UK, with that figure expected to rise to 2.9 million within three years as thresholds reduce.

Those individuals with gross income above £50,000 for the 2024-25 tax year are the first who must now comply. That means getting registered and organised and returning the first quarterly update to HMRC for the end of June.

Recommendations to ensure compliance:

- ❑ Check your qualifying income now to confirm whether you fall within the new rules
- ❑ Plan ahead if your income is likely to meet future thresholds in 2027 or 2028
- ❑ Ensure your software is MTD-compliant, or speak to your accountant about suitable options
- ❑ Start using digital systems early to allow time for a smooth transition
- ❑ Explore potential exemptions via HMRC guidance or professional advice

Accurate and up-to-date financial data

While MTD will inevitably mean more administration for some, clear benefits are envisaged. The system will offer improved visibility over your financial position throughout the year.

Better tax planning and forecasting means you have more accurate and up-to-date financial data and a smoother year-end process with fewer surprises.

Time is of the essence though. Putting the right plans in place today is essential so that you can take full advantage of the opportunities MTD presents.

For more information, please contact Nick Whitmore, nick.whitmore@hwb-accountants.com 023 8202 7498.

Major changes as payrolling benefits in kind become mandatory



From 6 April 2027, payrolling benefits in kind (BIKs) will become mandatory for UK employers. HMRC will replace

the P11D forms for most benefits, with employers needing to calculate the taxable cash equivalent of benefits (such as company cars or health insurance) and add them to the payroll to deduct income tax.

Payrolling Benefits in Kind

Benefits in kind are currently reported to HMRC via P11D forms by 6 July following the tax year end, or can be processed through payroll using Real Time Information (RTI). You are able to tax all benefits (except employer provided living accommodation and low or interest free beneficial loans) via the RTI payroll system.

Value of benefit

The value of the benefit is calculated in exactly the same way and split over the pay periods within the year, i.e. monthly paid employees would have 1/12th of the benefit added to their taxable pay each month.

National Insurance payable

Class 1A National Insurance cannot be collected through payroll and therefore a P11D(b) form would still be required by 6 July and payment of any National Insurance paid to HMRC by 19 July. Any benefit in kind processed through payroll would be subject to income tax only. From April 2027 we are expecting Class 1A National Insurance to be taken through payroll.

Registration to payroll benefits

If you wish to payroll any benefits, you must register with HMRC before the start of the tax year online using your Government Gateway login. You must also supply your employees with a letter explaining

what payrolling of benefits is, how it works and what it means for them. If HWB are your PAYE agent, we can complete this registration process for you. We suggest you do not leave it until March 2027!

Leavers within tax year

If an employee leaves part way through the tax year, employers must check that the cash equivalent balance is included in the final wage payment to the employee. Usually, the benefit would end at the time the employment ends and therefore the balance would require recalculating.

Further guidance on payrolling employee taxable benefits and expenses can be found at: <https://www.gov.uk/guidance/payrolling-tax-employees-benefits-and-expenses-through-your-payroll>

For more information, please contact James Alesbury, 023 8046 1222 james.alesbury@hwb-accountants.com

Benefits of using the PAYE Settlement Agreement



A PAYE Settlement Agreement (PSA) allows businesses to make one annual payment to cover all the tax and National Insurance due on minor, irregular or

impracticable expenses or benefits for your employees.

What it means

If you get a PSA for these items you will not need to:

- Put them through your payroll to work out tax and National Insurance
- Include them in your end-of-year P11D forms
- Pay Class 1A National Insurance on them at the end of the tax year (you pay Class 1B National Insurance as part of your PSA instead)
- Most importantly your valued employees will not have to pay tax on the benefit

However, once you have a PSA, you'll need to tell HMRC what you owe every tax year.

What's included

- Minor benefits and expenses
- Trivial benefits
- Irregular benefits and expenses
- Impracticable expenses and benefits

*such as staff entertainment, small non-cash gift vouchers and unexpected expenses

What's not included

You cannot include wages, high-value benefits like company cars, or cash payments such as employee bonuses, round sum allowances or beneficial loans.

If you apply after the start of the tax year, there are extra restrictions on what you can include.

How to apply for a PSA

The deadline for applying for a PAYE Settlement Agreement (PSA) is 5 July following the first tax year it applies to.

You can apply to get a PAYE Settlement Agreement (PSA) online. If you're unable to apply online, you can apply by post. An agent like HWB can apply on your behalf.

What are the benefits?

Making your budget tax-efficient, regarding staff incentives and entertaining means you can spend as much as possible rewarding employees.

However, take professional advice to make sure that a PAYE Settlement Agreement is right for your business.

It can certainly help with reducing reporting requirements and managing HMRC compliance, but the cost of grossed up tax and National Insurance contributions means the amount paid may be very high.

You also need to understand how the exemptions apply and what criteria need to be met as well as being able to review what

Changes coming on lease accounting

In 2026, all material leases, currently classified as operating leases and included as an expense, will be recognised on an entities balance sheet. This change could impact a number of areas for your business, including key performance indicators, valuations, meeting lending covenants and audit exemption requirements.

Contact HWB should you wish to discuss further.

HWB Tax Card

For the latest tax information, download our tax tables for FREE.

They include Rates, Income Bands, Benefits, Mileage Allowance, Capital Gains, Inheritance Tax and more.

See <https://www.hwb-accountants.com/news-guides/tax-cards/>

DOWNLOAD OUR TAX CARD HERE
<https://tinyurl.com/Tax-Card-2026>

costs should be included (particularly not those already exempted).

For more information, please contact Susan Wooding, 023 8046 1214 susan.wooding@hwb-accountants.com



Planning needed to reduce the bill over frozen IHT allowances

People with significant pension savings will face the need to undertake strategic inheritance tax (IHT) planning following the freezing of thresholds until 2031 and making unused pension funds subject to tax from next April.

The Office for Budget Responsibility predicts an additional 10,500 estates are likely to be brought into paying IHT due to the change in 2027/28, and in the region of 38,500 estates set to face higher IHT bills than previously.

Who pays inheritance tax?

Inheritance tax (IHT) is levied on the value of all the assets in an individual's estate on death, after deducting any liabilities, exemptions and reliefs. Assets left to a spouse or civil partner of the deceased are usually exempt, as are assets left to a charity.

The rate of IHT is normally 40% on the value of an estate above a threshold of £325,000. This threshold is frozen up to and including 2030-31. Any unused threshold may be transferred to a surviving spouse or civil partner, increasing their combined threshold to up to £650,000.

The Residence Nil Rate Band (RNRB) is an additional IHT allowance that applies when a main residence is passed to direct descendants (children, grandchildren) upon death.

It provides a maximum allowance of up to £175,000 per person (as of 2025/26), which acts alongside the standard £325,000 IHT threshold, allowing couples to pass on up to £1 million tax-free. The £175,000 allowance has also been frozen until 2031.

What will the changes mean?

By 2031, IHT allowances will not have changed for 22 years – the threshold would be above £500,000 if it had increased in line with the Consumer Prices Index (CPI) each year. Freezing the threshold not only drags more estates into the 40% tax band but also

generates more revenue without increasing tax rates.

Also, as property values rise, the £175,000 RNRB becomes less significant, meaning that more estates will be subject to tax.

The Office for Budget Responsibility forecasts IHT receipts to reach £14.5bn by the end of 2030/31, an increase of around 67% from 2025/26.

Unused pension pots

Unused pension pots will come into the scope of inheritance tax (IHT) from April 2027 as part of the Finance Act 2026, which is one of the biggest changes to pension taxation in years and means long-standing estate planning strategies will have to be changed.

The move aims to prevent individuals from using pensions to accumulate wealth and pass it on to their beneficiaries without incurring IHT.

This significant transition in tax treatment is likely to add administration difficulties and delays as processes for grieving family become more complex as IHT on pension assets will need to be considered.

What you should do?

The freezing of allowances and changes to unused pension pots legislation will affect retirement planning strategies for those with significant pension savings.

Therefore it is imperative that professional advice should be taken as soon as possible in order to discuss ways of reducing the bill.

Estate planning strategies need to be addressed urgently as the imposition of tax on estates not only compresses options for mitigating IHT but is anticipated that it will lead to delays in accessing funds.

For more information, please contact Steven Martin, steven.martin@hwb-accountants.com 023 8046 1225.

How apprenticeships are funded

Apprenticeships allow people of all ages to earn while they learn and gain the skills they need to build a rewarding career. Since 2020, more than 1.6 million apprentices have started their apprenticeship journey in a wide range of industries, from health to digital, to engineering and beyond.

This is in part thanks to the apprenticeship levy which was created so businesses can take on more apprentices, alongside the opportunity to invest in high quality training to develop the skilled workforce they need.

The apprenticeship levy is a tax on employers which can be used to fund apprenticeship training and an increase in the number and quality of apprenticeships.

Who has to pay the Apprenticeship Levy?

- ❑ The levy applies whether the employer uses apprentices or not
- ❑ The levy is only payable on annual 'pay bills' in excess of £3m.
- ❑ Employers which do not pay the levy will continue to have access to government funding to support apprenticeships

How much is payable?

- ❑ The levy is charged at 0.5% of an employer's 'pay bill'
- ❑ A 'pay bill' is based on the total employee earnings
- ❑ Each employer receives one annual allowance of £15,000 to offset against their levy payment (£3m x 0.5%)
- ❑ Connected persons rules, similar to the Employment Allowance apply, therefore employers who operate multiple payrolls only pay one levy
- ❑ For an employer with a 'pay bill' of £4m, the levy cost would be £4m x 0.5% = £20,000, less the £15,000 annual allowance = £5,000
- ❑ Employers pay and report levy payments through their normal payroll processes, using PAYE real time information (RTI)

Spending the levy

Once collected by HMRC, individual employers' funding for apprenticeship training in England is made available to them via an Apprenticeship Service account. Employers can use this to pay for training for apprentices.

Employers can use the service to:

- ❑ Advertise vacancies on gov.uk
- ❑ Choose an apprenticeship training course
- ❑ Find a training provider and select suitable end-point assessment organisations
- ❑ Give feedback on apprenticeship training
- ❑ Give training providers permission to carry out some tasks on their behalf

Covering costs

Employers can use the funding received to cover the costs of an apprentices training, assessment and certification.

Employers cannot use levy funds to cover all the costs associated with taking on an apprentice. For example, overheads, supervision costs and apprentices' wages cannot be funded by the levy.

For more information, please contact Alan Davies, alan.davies@hwb-accountants.com 023 8046 1246.



Two promotions strengthen our senior management team



Congratulations to Tom Young and Matt Cooper, both previously associate directors, who have gained promotion as full directors.

Tom joined us as a trainee from college, achieving his chartered (ACA) qualification in 2012 and taking on a business adviser role two years later. He was promoted to Associate Director in 2022.

Matt was made an Associate Director in 2023 following eight years' service as an Accounts & Audit Business Adviser during which, like Tom, he qualified as a Chartered Accountant.

Both Matt and Tom are registered auditors, able to sign audit reports as responsible individuals or RIs, an official status recognised by ICAEW, the Institute of Chartered Accountants in England and Wales.

Our new charity of the year is...

Sophie's Legacy, a Hampshire-based charity that provides vital support to families with children admitted to hospital.

Founded by social worker Charlotte Fairall in memory of her daughter Sophie who died of cancer aged ten, the charity focuses on making the lived experience of hospital better for child patients and their visiting families.



Among its activities is the provision of parent packs, containing items such as tea bags, toiletries, cosmetics and phone chargers, to help with bedside times and overnight stays.

We will be providing a range of support to Sophie's Legacy this year. As well as hosting and participating in fundraising events, we aim to gather donations of items and go hands-on by contributing to the making up and delivery of the hospital packs.

If you would like to donate to HWB Accountants fundraising please visit <https://www.justgiving.com/page/hwb-sophies-legacy>

Chris's quarter century of service



Our longest serving current team member, Business Adviser Chris Wignall, has completed 25 years at HWB.

Chris recalls going out on his first client audit visit in early 2001 with just a pen, analysis pad paper and calculator – no laptops were in use at that point.

Times have certainly changed, We have obviously embraced all the technological

advances in the intervening years, and while the fundamentals of accounting may not have changed, the way we deliver the service to our clients has moved on beyond recognition.

When Chris started at the small, cramped office in Portswood, Mike Hopper, Alan Williams and Arthur Bell were the owners. They have all since moved on to well-earned retirement, but the fundamentals they instilled in him at the outset – hard work, high standards and professionalism – have stayed with him ever since.

HWB seminars

We are busy adding to our regular events for 2026.

Among them are seminars and webinars on topics such as personal tax planning, the pros and cons of family investment companies and the governance of Academy Schools.

You can register online here: www.hwb-accountants.com/events.

If you've missed any of our previous events, you can catch up via our YouTube channel. It is also home to useful guide videos:

<https://www.youtube.com/@HWBAccountants>

Alumni update

Sixteen former colleagues attended our first alumni get-together in February. Held at Level1 at St Mary's Stadium in Southampton, it was an excellent opportunity for current and ex-staff to catch up and enjoy some fun and games. Our next event will be held in September. If you are an ex-HWB employee or are in contact with anyone who is and would like to come along, please contact our marketing team on marketing@hwb-accountants.com