ZENITH advisory

Chancellors House, 3 Brampton Lane
Hendon, London, NW4 4AB
Telephone: +44 (0) 20 8903 0337
Email: hello@zenithadvisory.uk
www.zenithadvisory.uk

Tax E-News

Welcome to the February 2026 edition of Tax E-News. We hope that you find this informative. Please contact us if you wish to discuss any matters in more detail.

THERE'S STILL TIME FOR SOME YEAR END TAX PLANNING!

With the tax/financial year end approaching, now is a good time to check that you're making the most of the available reliefs and allowances available to you. Please talk to us if you think any of the issues affect you.

Savings

If you have some spare cash, an obvious tax planning point would be to maximise your ISA allowances for the 2025/26 tax year (currently £20,000 per person). If you are 18 or over but under 40, you can open a Lifetime ISA to save for your first home or retirement. You can put in up to £4,000 each year, until you're 50, but you must make your first payment into your ISA before you're 40. The government will add a 25% bonus to your savings, up to a maximum of £1,000 per year. The £4,000 Lifetime ISA limit counts towards the £20,000 ISA allowance.

Pension planning

You might also want to consider increasing your pension savings before 5 April 2026.

Under the current rules, the government adds to your pension contributions at the 20% basic rate. For instance, if you save £4,000 in a personal pension, the government tops this up to £5,000. If you are a higher rate taxpayer there is a further £1,000 tax relief when your tax liability is calculated, reducing the net cost of making the contribution to £3,000.

Additional pension contributions can be even more effective if your income is between £100,000 and £125,140 as the gross pension contribution reduces net income for the purposes of the reduction in the personal allowance. Note that for every £2 of income in excess of £100,000, the £12,570 personal allowance is reduced by £1, with reduction to nil where net income is £125,140 or more. This is effectively a 60% tax saving.

The timing of making contributions can be critical. There are also limits on the amount which can be contributed to a pension each year tax efficiently. Contact us for details of how these apply to your circumstances.

Dividends and company loans

The basic and higher rates of income tax applying to dividends will increase by two percentage points on 6 April 2026. The basic rate will increase from 8.75% to 10.75% and higher rate will increase from 33.75% to 35.75%. The additional rate will remain unchanged at 39.35%.

The increase to the higher rate will also apply for the purposes of the 'penalty tax' which is charged on some company loans to their shareholders, made on or after 6 April 2026.

Consider the timing of dividend payments and company loans as we approach the end of the tax year and, where possible, take advantage of the lower rates applying in 2025/26.Before taking any action,

we would recommend talking to us to fully consider your position and advise on any possible savings which can be made.

Capital Allowances

Where a business has a 31 March or 5 April year end, the end of the tax year is a significant date as far as capital allowances are concerned. In order for new equipment to attract capital allowances, the expenditure must be incurred on or before the end of the accounting period. It is therefore important to consider the timing of expenditure and the possibility of accelerating planned investment.

Limited companies and unincorporated businesses are entitled to 100% write off for the first £1 million spent on new and used equipment in a 12-month period. This is called the "annual investment allowance" (AIA). The AIA does not apply to motor cars but there is a special 100% tax relief if you buy a new zero-emissions motor car.

In addition to the AIA, limited companies buying new (not second hand) equipment are entitled to fully expense the cost of most acquisitions against business profits. There is no financial limit on expenditure qualifying for this "full expensing" relief.

For expenditure incurred on or after 1 January 2026, a new 40% first year allowance is available to limited companies and unincorporated businesses. The allowance can be used against qualifying assets (not cars or second-hand assets) and will be particularly useful to unincorporated businesses that have used all of their £1million AIA.

Where equipment is bought under a hire purchase contract, the capital allowances outlined above are available on the full cost of the asset provided it has been brought into use by the end of the accounting period. This is despite the fact that the payments may be spread over a number of months. It is important to take note of when assets are brought into use.

Capital Gains Tax planning

You might wish to consider bringing forward capital gains to before 6 April 2026 if you haven't used your £3,000 CGT annual exemption for 2025/26.

Another important point to note is the upcoming increase to the CGT rates applicable to gains qualifying for both Business Asset Disposal Relief (BADR) and Investors' Relief (IR). These rates increased from 10% to 14% on 6 April 2025 and are set to increase again to 18% on 6 April 2026: another reason to accelerate qualifying disposals, where possible.

Paying Voluntary National Insurance Contributions

A retiring person needs to have 35 'qualifying years' in order to claim the full state pension. For those with gaps in their record, usually due to not paying sufficient National Insurance Contributions (NICs), it is possible to 'plug' those gaps by paying Class 3 (Voluntary) NICs at £17.75 per week (£18.40 in 2026/27).

Voluntary NICs can usually only be paid for the past six years: this means that gaps for the 2019/20 tax year must usually be made up by 5 April 2026.

INHERITANCE TAX RELIEFS – A WELCOME U-TURN!

The government has announced that the proposed cap to the 100% rates of Agricultural Property Relief (APR) and Business Property Relief (BPR), which is due to apply from 6 April 2026, will be increased to £2.5 million from the £1 million previously announced.

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The revised measure means that from 6 April 2026, individuals will be able to pass on £2.5 million of qualifying agricultural and business assets without attracting IHT.

This is the second recent significant amendment to the proposed IHT reforms, which were first announced in the 2024 Autumn Budget. The initial policy did not permit any unused allowance on death to be transferred between spouses or civil partners. However, this position changed in the 2025 Autumn Budget when it was announced that the new allowance would be transferable.

These changes together mean spouses and civil partners will potentially be able to pass on, combined, £5 million of qualifying agricultural and business assets free of tax

MTD FOR INCOME TAX – NEARLY THERE!

Making Tax Digital (MTD) for income tax will be mandated for a large group of self-assessment taxpayers from 6 April 2026, with even more individuals being mandated in 2027 and 2028.

If your combined turnover from a sole trade or property business was over £50,000 in the 2024/25 tax year, you will likely be required to comply with the MTD for income tax rules from 6 April 2026.

Over the past year we have successfully helped many of our clients prepare for MTD. If you would like to discuss how you can meet the new requirements, please speak to us – we're happy to help!

EMPLOYMENT EXPENSES

From 6 April 2026, it will no longer be possible for employees to claim tax relief against their employment earnings for the costs of working from home. This change is being implemented because too many people were claiming the relief incorrectly.

The relief, at £6 per week (or the amount of actual homeworking costs if higher) is still available for 2025/26, but only if the employee is contractually required to work from home.

The measure will result in an Income Tax increase of £62 for basic rate taxpayers and £124 for higher rate taxpayers.

From 2026/27, if the employer actually reimburses the costs of working from home to the employee, this will be free of tax and NICs provided the employee is contractually required to work from home.

SUPREME COURT RULES AGAINST HOTEL LA TOUR

In a recent ruling, the Supreme Court dismissed Hotel la Tour Ltd's appeal in which they argued that they were allowed to reclaim input VAT incurred on the professional fees that they incurred during the sale of shares in the company that owned their luxury hotel in Birmingham.

HMRC's position was that the sale of shares was a VAT-exempt transaction and the legislation disallows input tax reclaim when there is a direct and immediate link between the input (in this case, the professional fees), and an exempt supply.

Hotel la Tour (HTL) argued that there was no direct and immediate link between the professional fees and the exempt share sale. Instead, the link existed between the fees and the overall taxable activities of the hotel group. Their reasoning for this was that the Birmingham hotel was sold in order to raise funds to build a new hotel in Milton Keynes.

The First Tier and Upper Tribunals had previously found in favour of HTL, although the Court of Appeal found that the Tribunals had incorrectly determined the correct test to establish the presence of a direct and immediate link. The Court of Appeal found that there was a direct and immediate link between the professional fees and the share sale because the fees were 'cost components' of the share sale, even though the amount of fees did not influence the share price.

HLT appealed to the Supreme Court which agreed with the Court of Appeal's ruling. The appeal was dismissed.

DIARY OF MAIN TAX EVENTS
FEBRUARY / MARCH 2026

Date	What's Due
1 February	Corporation tax for year to 30/04/2025, unless quarterly instalments apply.
19 February	PAYE & NIC deductions, and CIS return and tax, for month to 5/2/26 (due 22/2 if you pay electronically).
1 March	Corporation tax for year to 31/05/2025, unless quarterly instalments apply.
19 March	PAYE & NIC deductions, and CIS return and tax, for month to 5/3/26 (due 22/3 if you pay electronically).