Barnes Roffe

2025/26

Tax planning tips

Clever accountants for business

Introduction

The new tax year has brought mainly challenging news for taxpayers and business owners. Personal tax allowances and income tax bands remain frozen, effectively raising taxes by the operation of inflation. In addition, employers now have to pay employer NICs at the rate of 15% (up from 13.8%), with the starting point reduced to £5,000 (down from £9,100). Landlords have lost the tax advantages associated with furnished holiday letting, although there are still some non-tax benefits with this type of property letting. Taxpayers in Scotland are also faced with frozen thresholds for the higher rates of Scottish income tax.

The main rates of capital gains tax (CGT) were increased in October 2024, and from 6 April 2025 the rate of tax on qualifying business assets increased from 10% to 14%, with a further increase to 18% to come in a year's time.

The government has also announced several inheritance tax (IHT) changes well in advance of their introduction. From April 2026, the 100% relief for shares in unlisted trading companies will be restricted to a maximum of £1 million. Then, from April 2027, unused pension funds will be included in the value of the deceased's estate (unless the funds are inherited by a spouse or civil partner). To top it off, IHT nil rate bands will be frozen until April 2030 rather than April 2028.

This guide highlights 50 ways in which you can currently use certain tax reliefs to your advantage, and how to avoid some of the tax penalties. It can help you navigate the complexity of certain tax rules and create more tax-efficient plans.

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Personal and family tax planning

Check your PAYE tax code

HMRC may change your tax code in various circumstances, for example if you start to get income from an additional job or pension or you start or stop getting employee benefits. Your code may include estimated amounts of savings income, based on what you received in an earlier year. Check your PAYE code by signing into your personal tax account at http://www.gov.uk/personal-tax-account and use the options there to amend any estimated income and correct any other errors.

Transfer some of your unused personal allowance

Married couples and civil partners can transfer 10% of their personal allowance between them (£1,260 for 2025/26), providing an overall tax saving for the couple if the transferor cannot use the full amount of the allowance. This transfer is not permitted if the recipient pays tax at a rate higher than the basic rate of 20% (higher than the intermediate rate of 21% for Scottish taxpayers). You can backdate a claim for up to four years, so a claim made by 5 April 2026 can include 2021/22.

EXAMPLE

Leila receives an annual salary of £45,000. Her husband has no taxable income, so doesn't use his personal allowance. For 2025/26, they could save tax of £252 (£1,260 at 20%) by transferring 10% of the husband's personal allowance to Leila.

Check how much NICs you pay

If you have two or more concurrent jobs you may pay more NICs than you need to. You can reclaim any overpaid NICs from HMRC after the end of the tax year. However, you can prevent the overpayment occurring in the first place by deferring payment of NICs on one of your jobs. To do this, send HMRC a completed form CA72A (either online or by post) by 14 February in the tax year, but ideally earlier.

Top-up your state pension entitlement

Check your NIC record for your entire working life in your personal tax account at www.gov.uk/personal-tax-account. If there are gaps in that record, such that you will not have 35 qualifying years by the time you reach state pension age, you may not be entitled to the full state pension. You can fill any gaps over the past six years by paying voluntary class 3 NICs. The cost is currently £928.20 per year to fill a gap, but State pension entitlement will then be increased by just over £340 annually (based on the rate for 2025/26).

Tip

Based on current rates, you only have to live for a further three years after reaching state pension age to benefit from paying voluntary class 3 NICs to fill gaps in your NIC record.

Minimise the amount of late payment interest paid to HMRC

HMRC automatically charges interest on late tax payments at a rate of base rate plus 4% – 8.25% from 28 May 2025. This is considerably higher than most savings interest, so it will almost certainly make sense to use savings to make sure tax liabilities are paid on time or to pay any overdue tax.

When selling a home, be prepared to pay any CGT due within 60 days of the completion date

If you sell or give away a UK residential property, you must report and pay any CGT due to HMRC within 60 calendar days of the completion date. This is done via an online UK Property Account, with a separate declaration of the same gain also required if you have to submit a self-assessment tax return. If there is no tax to pay you don't have to report the sale on the UK Property Account, but you may still need to include it in your tax return. Penalties may be charged for reporting late and/or paying the CGT late.

If you or your partner receive child benefit, check whether you have to pay a tax charge to pay back some of the child benefit received

Where the higher earner of a couple has income over £60,000, the extra tax charge for that person is equivalent to 1% of the child benefit for every £200 of their income over £60,000. Once income reaches £80,000, the charge is 100%. Therefore, the child benefit claim is effectively reduced to nil. To avoid the tax charge, you can halt your child benefit payments, but keep the claim alive to protect the claimant's state pension entitlement.

If the income of the higher earner has fallen below £60,000, you can ask HMRC to start paying the child benefit again. Don't delay, as it can take up to 28 days before you get your first payment.

EXAMPLE

Anna receives child benefit in respect of her two children and until recently made an annual profit of £80,000 from her self-employment. Some years ago, she asked HMRC to halt her child benefit payments so she didn't have to pay the tax charge. Anna predicts her net profit will be around £55,000 for 2025/26. Anna can asked HMRC to restart her child benefit and, and – provided the request is made early enough – she will receive payments throughout 2025/26.

Plan to minimise tax when selling your trading company by spreading the shareholding between you and your spouse

If you both meet the 5% shareholding test for two years or more before the sale and are either an officer of the company or employed by it, you should both qualify for the 14% rate of CGT on any gains made when the company is sold. This reduced rate of CGT applies to the first £1 million of gains made on the disposal of qualifying business assets during each person's lifetime. Be warned that the rate of CGT will increase to 18% from 6 April 2026.

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Don't pay too much income tax on account in July and January

If your income is reducing, perhaps because you are winding down to retirement, the payments on account of tax due by 31 July and 31 January may be too high as they are based on your taxable income for the previous tax year. You can apply to reduce the payments on account through your personal tax account or on your tax return. If you believe you have paid too much tax on account for 2024/25, then submit your tax return as soon as you can to receive an early tax repayment.

Tip

Estimate your income for 2025/26 and if this is likely to be less than £80,000, ask HMRC to restart your child benefit payments.

CHECKLIST

- ☐ Check PAYE codes when they are changed, and also check you are not overpaying NICs
- ☐ Review whether an unused personal allowance can be transferred between you and your spouse or civil partner
- ☐ Check your NIC record if you think there might be recent gaps
- ☐ Consider using savings if you are going to have any difficulty making tax payments by the due date
- ☐ Review whether you have to pay a tax charge in respect of child benefit received, or whether a halted claim should be restarted
- ☐ Make sure that your payments on account are not higher than they need to be

Savings and investment – making the most of your money

Contribute up to £9,000 to your child's Junior ISA

The fund builds up free of tax on investment income and capital gains until your child reaches 18, when the funds can be either withdrawn or rolled over into an adult ISA. Relatives and friends can also contribute to your child's Junior ISA, as long as the £9,000 limit for 2025/26 is not breached.

Make the best use of tax-free savings and dividend allowances

For 2025/26, savings income of up to £1,000 is tax exempt for basic rate taxpayers, with a £500 exemption for higher rate taxpayers. The tax-free dividend allowance of £500 is available to all taxpayers. Married couples and civil partners can save tax by ensuring that each person has enough of the right type of income to make use of these tax-free allowances.

Take advantage of the individual savings account (ISA) investment limit and generate tax-free income and capital gains

The maximum amount that can be invested in ISAs is £20,000 for 2025/26. You can put the whole amount into a cash ISA, a stocks and shares ISA, an Innovative Finance ISA, or any combination of the three as desired. It is possible to open more than one of each type of ISA each tax year. Transferring funds into an ISA early in the tax year will maximise the amount of tax-free income arising in the year. ISAs can offer long-term tax advantages as an alternative, or addition, to pension savings.

EXAMPLE

Jerry is an additional rate taxpayer, and has £120,000 invested in a stocks and shares ISA. He uses his dividend allowance and CGT exempt amount against non-ISA income and gains. During 2025/26, the ISA produces dividend income of £4,000 and capital gains of £8,000. By investing in an ISA, Jerry has saved income tax of £1,574 (£4,000 at 39.35%) and CGT of £1,920 (£8,000 at 24%) for 2025/26.

Plan your capital gains to make best use of any capital losses

If you realise capital gains and losses in the same tax year, the losses are offset against the gains before the CGT exempt amount (£3,000 in 2025/26) is deducted. Capital losses will be wasted if gains would otherwise be covered by your exempt amount. Consider postponing a sale which will generate a loss until the following tax year, or alternatively realising more gains in the current year.

Generate a 50% income tax credit on an investment of up to £200,000 by investing through the Seed Enterprise Investment Scheme (SEIS)

When you make a capital gain and reinvest that amount in SEIS shares, it can qualify for a maximum 50% CGT reduction on gains of up to £200,000. If the gain was taxable at 24% the overall tax relief is 62% (50% income tax plus half of 24%). Also, any capital gains arising on the SEIS shares are exempt from tax if the shares are held for at least three years. Beware that the income tax credit is clawed back if the shares are held for less than three years. Investing in small companies can be very risky, so take independent financial advice.

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Obtain a 30% income tax credit by subscribing for shares in a Venture Capital Trust (VCT) or an Enterprise Investment Scheme (EIS)

In 2025/26, the maximum subscription in VCT shares is £200,000. The shares are exempt from CGT when they are sold. A subscription in EIS shares costing up to £2 million (investments in excess of £1 million must be made in knowledge-intensive companies) qualifies for the income tax credit. In addition, you can defer tax on your capital gains by reinvesting an unlimited amount of gains in EIS shares. VCT and EIS shares can be high-risk investments and you must hold VCT shares for at least five years and EIS shares for three years in order to retain your income tax credit.

Tip

Invest in a small trading company under the Seed Enterprise Investment Scheme (SEIS) and gain a 50% income tax credit on an investment of up to £200,000.

CHECKLIST

- ☐ Maximise the use of your ISA allowance and your child's Junior ISA allowance
- ☐ Ensure you are making best use of the tax-free savings and dividend allowances, especially when it comes to income allocation between spouses and civil partners
- ☐ Plan the timing of your asset disposals to make the best use of capital losses and the CGT exempt amount
- ☐ Consider if the SEIS,. EIS or VCT schemes fit with your investment profile

Your property – making the most of bricks and mortar

Let rooms in your own home to one or more lodgers

Rent-a-room relief allows up to £7,500 of rent per property to be received tax free per year. The rooms must be let as residential accommodation in the home you live in, and no expenses can be claimed. If the gross rent is higher than £7,500, you need to declare the income on your tax return. However, you can then claim a deduction of £7,500 instead of the actual expenses incurred. Payments received under the Homes for Ukraine Scheme are not taxable and do not count towards the rent-a-room relief cap.

When you occupy a second home tell HMRC which of your properties should be treated as your main home for tax purposes

A property that has always been your main home is free of CGT on sale or disposal. Any other property that you used as your main home for a period will be exempt from CGT for the time you lived there, and (when you have more than one home) for any period for which you elected for it to be your main home. If a property has been your nominated main home at any time, the gain for the last nine months of ownership is exempt from CGT, even if you do not live there during that final period. You might not be able to nominate a property that is situated overseas.

Let out your drive or garage for tax-free cash

The property income allowance allows you to receive up to £1,000 income tax free from property that doesn't qualify for rent-a-room relief (see above). This could be from letting out spare space in your garage – or even your drive – for commuter parking. If the gross income before deduction of expenses is no more than £1,000 you don't have to report the income on your tax return. If the rent received is more than £1,000, you can deduct the higher of £1,000 or the actual expenses incurred, paying tax on the net amount.

Look at whether it is worthwhile continuing with a holiday letting

All the tax advantages enjoyed by furnished holiday lettings have been abolished from 6 April 2025, including being able to claim finance costs as a deductible expense – rather than these being restricted to a basic rate tax deduction.

You therefore need to decide if furnished holiday letting is still worthwhile. Even without the tax advantages, a furnished holiday letting will often be more profitable than a traditional

buy-to-let, although considerably more work is usually required. A non-tax advantage of holiday letting is that this type of letting will avoid having to comply with the wide ranging changes that will be brought in by the Renters' Rights Bill when it is enacted in the near future for example, a ban on no-fault evictions.

Tip

Despite the tax changes, furnished holiday accommodation can still be registered as a business so it qualifies for small business rates relief. A property has to be let on a commercial basis for short-term lets for at least 70 days over the previous 12 months.

CHECKLIST

- ☐ Consider renting out a room or space on your drive for tax-free income
- ☐ Nominate your main residence with HMRC if you have more than one home
- ☐ Review any furnished holiday lettings to decide if this form of letting is still worthwhile

Retirement planning – preparing for the future

Maximise tax relief on your pension contributions by using all of your annual allowance

The annual allowance for 2025/26 is £60,000, but you can also use surplus allowance from the previous three tax years (see the following tip). To avoid an annual allowance tax charge, the pension contributions you make yourself, plus those made by your employer on your behalf, must be covered by your available annual allowance. Beware that your annual allowance may be restricted to a maximum of £10,000 if your total income plus pension contributions for the year exceed £260,000, and your net income exceeds £200,000. Your annual allowance is also restricted if you have already drawn more than the tax-free amount from a money purchase pension scheme. Always take professional financial advice before making a significant investment.

Take advantage of your unused annual pension allowances from earlier years

You can bring forward unused pension allowances to boost your allowance for the current year (2025/26). The pension allowance was £40,000 for 2022/23, and £60,000 for 2023/24 and 2024/25. This allows you to pay pension contributions over the current year's annual allowance – in theory up to £220,000 – and still enjoy full tax relief on those contributions at your marginal tax rate. However, the total tax relievable pension contributions are also limited by your taxable earnings for the year. The calculations can be complex, so it is best to do your pension planning well before the end of the tax year.

EXAMPLE

Jane earns £100,000 per year and is opted into her workplace pension scheme. The pension contributions made by Jane and her employer amount to £8,000 per year (Jane contributing £3,000, and her employer £5,000), and this has been the case for the past three years. During May 2025, Jane won £100,000 on the premium bonds and wishes to maximise her pension contributions for 2025/26.

Jane's financial adviser calculates that Jane has unused annual allowances of £188,000 in 2025/26 being £32,000 (£40,000 – £8,000) from 2022/23 and £52,000 (£60,000 – £8,000) for 2023/24, 2024/25 and 2025/26. Jane can pay up to £97,000 (£100,000 – £3,000) in additional pension contributions for 2025/26 as her total contributions are limited by her total earnings.

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Ask your employer to pay pension contributions to top-up your pay

If you are due a pay rise and do not need the extra money day to day, you could ask your employer to pay the increase as a contribution directly into your pension scheme (a salary sacrifice arrangement). The employer receives tax relief for the contribution and there is no income tax or any NICs to pay – a saving for both you and your employer. You must agree in writing to adjust your salary before the revised pension contributions are paid for this arrangement to be tax-effective.

Make pension contributions or charitable gifts to retain your child benefit

Child benefit is clawed-back as a tax charge when the higher earner of a couple has adjusted net income over £60,000). You can reduce your annual adjusted net income to below this threshold by making pension contributions or charitable donations under Gift Aid. At this level of income, making pension contributions or charitable donations will mean you also benefit from tax relief at the higher rate.

Plan to sell your shares to your company on retirement, leaving your successors in control of the business

The next generation of shareholders in your company may not have the cash to buy your shares when you exit the business. Instead of them having to borrow to finance the purchase, the company itself can buy your shares and cancel them, leaving the remaining shareholders controlling the company. You end up with cash and, provided a set of strict conditions are met, up to £1 million of the gain should qualify for business asset disposal relief and be taxed at no more than 14% (increasing to 18% from 6 April 2026).

Tip

You can carry forward unused pension allowances from the three previous tax years and use these to cover pension contributions greater than the current year's annual allowance.

CHECKLIST

- ☐ Maximise the use of your pension annual allowance to benefit from tax relief
- ☐ Plan to make use of unused pension annual allowances from earlier years
- ☐ Consider a salary sacrifice arrangement to benefit from tax and NIC savings
- ☐ Reduce net income for child benefit purposes by increasing your pension contributions and/or charitable donations
- ☐ Consider selling your shares to your company when you decide to retire and exit the business

Estate planning – handing on your wealth

Plan to maximise your IHT nil rate band on death

Everyone has a nil rate band of £325,000 on which no IHT is charged. If you have children, or step-children, you can add up to £175,000 (known as the residence nil rate band) to your nil rate band by leaving your home to one or more direct descendants on your death, or to certain types of trust. Your Will needs to make it clear who should inherit the home. This extra relief is restricted to the net value of the home, after deduction of any mortgage. It is also restricted where your estate is worth over £2 million on death. It may be worth paying down a mortgage to reduce the deduction from the value of the home, or making some lifetime gifts to reduce the value of your estate below £2 million. The total value of the nil rate band is fixed until at least 6 April 2030.

Long deceased spouses can help save IHT today

Widows and widowers inherit the unused proportion of their late spouse's or civil partner's nil rate band for IHT – even if they died many years ago. This could mean that up to an extra £325,000 of the estate will be tax free. The residence nil rate band (see the previous tip) is also inheritable, regardless of when the first spouse died.

EXAMPLE

Mia's estate is valued at £950,000 for IHT purposes. The estate includes her main residence valued at £300,000, but this is bequeathed to Mia's brother, rather than to her two children (who inherit the remainder of the estate). Mia's husband died five years ago, without using any of his nil rate band or residence nil rate band. Currently, IHT of £120,000 (£300,000 at 40%) will be payable in respect of Mia's estate on her death, but if Mia changes her will so that her children inherit her main residence, the IHT payable will be reduced to nil.

Make a Will and tell people about it

If you die with no surviving relatives and you haven't made a Will, the intestacy rules will result in the whole of your estate going to the government. That's 100% tax! If you want your relatives, friends and favourite charities to benefit on your death, make a Will and ensure it can be found after you die. If you have a surviving spouse or civil partner, they may only get a portion of your estate if a Will can't be found after your death. The residue will then be subject to IHT at 40% to the extent that it exceeds £325,000 (up to £500,000 if the residence nil rate band is available).

Legalise your relationship to save IHT

Being married or in a civil partnership will save IHT as your spouse/civil partner can inherit any amount from you tax free, as long as they are long-term resident in the UK. This tax exemption is not available if you are not legally married to your partner. Your surviving spouse/civil partner can also inherit your unused nil rate band and residence nil rate band (together worth up to £500,000), which will save further IHT on their own death.

Cut your IHT rate by leaving gifts to charity in your Will

By writing your Will so that at least 10% of your net estate is left to charities, the IHT on the remainder of your taxable estate will be charged at 36% instead of 40%. The exact calculation of your net estate is complex, so take professional advice when drawing up or amending your Will.

Make regular IHT-free gifts out of your annual income

Regular gifts out your net income are free of IHT provided the gifts don't change your normal standard of living or reduce your capital assets. The amounts of the gifts and/or the recipients can be different each year.

EXAMPLE

Rebecca pays the quarterly gas and electricity bills of her niece and nephew out of her surplus net income. These regular gifts are free of IHT as they do not affect Rebecca's lifestyle or eat into her capital assets.

Use your IHT-free gift allowances

In addition to regular gifts out of your net income (see the previous tip), you can make IHT-free gifts of up to £3,000 each tax year, and gifts on marriage/civil partnership ranging from £1,000 to £5,000 (depending on your relationship to those who are marrying). If you miss making the gifts totalling £3,000 in one year, you can catch up in the next tax year by giving a total of £6,000, but you can only carry forward the £3,000 allowance for one tax year.

Invest in businesses to save IHT

The value of shares in unlisted trading companies is free of IHT if you hold them for at least two years, although relief will be restricted to a maximum of £1 million from 6 April 2026. You don't have to be involved in the company for the shares to qualify. You can mitigate the investment risk by investing in AIM portfolios, including AIM ISAs, although relief will only be at the rate of 50% from 6 April 2026 – effectively reducing the rate of IHT from 40% to 20%. Be warned that AIM portfolios have generally underperformed the market.

Plan ahead for pensions being subject to IHT

Currently, pension funds can be passed down to beneficiaries free of IHT. But, from 6 April 2027, the government's intention is that unused pension funds will be included in the value of your estate unless inherited by a spouse or civil partner. This change will upend the typical retirement strategy in which a retiree draws on non-pension funds in preference to pension funds. Given the change, you might decide to use your pensions to provide retirement income rather than retain them until death. If you are already retired and currently drawing income from ISAs and other non-pension assets, you should consider giving these assets away and instead drawing income from your pensions.

CHECKLIST

- ☐ Update your Will if your circumstances have changed
- ☐ Consider legalising your relationship
- ☐ Plan how to maximise the use of your nil rate bands on death – don't forget your late spouse's or civil partner's nil rate bands
- ☐ Consider a charitable legacy in your Will to reduce the rate of IHT payable on death
- ☐ Make regular gifts out of your net income to reduce the value of your estate
- ☐ Plan ahead for how you are going to use your pensions

Your business – making the rules work for you

Choose the most tax-advantageous structure for your new business

Tax changes, such as the recent increase to the rate of employer NICs, have made the decision on how to structure a new business quite difficult. Traditionally, a business would start off as a sole trader or partnership, and then incorporate later on when it had grown. The initial stage of this approach still holds, especially if losses are a possibility in the early years of trading. Running a business as a sole trader or partnership will give you maximum flexibility to set off those losses against your other income.

However, with a marginal rate of corporation tax of 26.5% on company profits between £50,000 and £250,000, and 25% once profits exceed £250,000, it may often make sense to remain unincorporated, especially when the higher costs of running a company are taken into account. One advantage that companies do still have, however, is the ability to make tax-efficient pension contributions (see the retirement planning section).

Don't miss your VAT registration requirement

If your business is not VAT registered, you must keep an eye on your turnover for the previous 12 months on a rolling basis. When it exceeds £90,000, you must register for VAT by the end of the month following the month in which your turnover exceeds the threshold. Once registered, you must charge VAT on all of your sales (except those which are exempt) and submit VAT returns to HMRC using making tax digital (MTD) compliant software. You also need to keep your VAT records in a digital format. If you register late, you will still have to pay the VAT on sales you made after you should have been registered but may not be able to recover that VAT from your customers.

Check that your trading profit is calculated using the most appropriate basis

The cash basis is now the default method for calculating trading profit if you are self-employed or in a partnership. However, there are circumstances where the traditional – more accurate – accruals basis will be preferable, and it is easy enough to opt out of the cash basis if this is the case. More sophisticated businesses will usually want accounts prepared on an accruals basis so they have the information to make business decisions. Also, banks and other lenders may insist on the accruals basis being used.

Lower your tax rate by involving your family

When your taxable profits go above £50,270 per year, consider bringing in your spouse or adult children as partners in your sole-trader business. A partnership can spread the profits over the basic rate bands and personal allowances of your family members, keeping the average tax rate of the family below 40%. The proportion of profits allocated to each partner can vary each year, although it is advisable to have a partnership agreement drawn up to document this.

Use your own car for business journeys

By using your own car for business journeys, you can receive a tax- and NIC-free mileage allowance of 45p per mile for the first 10,000 miles, and 25p per mile for any additional miles, per tax year. These rates are the same whatever road fuel your car uses, including for electric cars. If you work for yourself, you can use these mileage rates to calculate the cost of the business journeys you make in your own car, which is generally easier than working out the business proportion of the entire running costs of the vehicle.

Get ready for MTD for income tax

From 6 April 2026, sole traders (and landlords) with total income of more than £50,000 from self-employment and property letting will need to use MTD-compliant software to keep digital records of their business income and expenses. They will also have to use MTD software to submit quarterly updates to HMRC and finalise their tax position following the end of the tax year. If affected, you need to be looking for suitable MTD software well in advance of the implementation date. The threshold for joining MTD will fall to £30,000 from 6 April 2027 and £20,000 a year later.

Get ready to file company tax returns using software

HMRC's free online filing system for corporation tax will close on 31 March 2026. If you operate through a limited company, you will have to use third-party software to file your accounts and tax computations. Although the Companies House accounts filing service will continue, you will not be able to submit accounts to both departments jointly as now, and it too will close eventually. You should therefore look for suitable software that can file your company accounts to HMRC and Companies House at the same time. After HMRC's service closes you will not be able to access any earlier filings, so if you have not previously done so, you should download them now for your records.

Tip

With the rate of employere NICs increased to 15% for 2025/26, together with the starting point reduced to £5,000, any previous decisions on how to withdraw profits from your limited company need to be reviewed. Although extracting profits by way of dividends is generally more tax-efficient, each decision has to be made on a case-by-case basis.

CHECKLIST

- ☐ Ensure your business structure is still tax advantageous
- ☐ Review turnover regularly to avoid missing the requirement to register for VAT
- ☐ Ensure that you are calculating trading profit in the most suitable way for your business
- ☐ Consider whether a family member could work for your business or become a partner
- ☐ Review how you calculate the cost of business journeys in your own car
- ☐ Plan ahead for the implementation of MTD for income tax

Employment and remuneration – looking after your employees

Feed employees with free or subsidised food in a staff canteen

Where the food is available to all employees, or all who work at a particular site, there is no taxable benefit for employees when they receive free or subsidised food. A catering or restaurant business must designate an area exclusively for staff to use to eat their employer-provided meals.

Provide all-electric company cars

For 2025/26, all-electric company cars can be provided to employees with a taxable benefit of just 3% of the list price of the vehicle. The employer can claim a 100% first year capital allowance deduction for the cost of new wholly electric cars. As an alternative to company car provision, all-electric cars work very well under a salary sacrifice arrangement if the employee is taxed at the higher or additional rates. The employee sacrifices a proportion of their gross pay in return for being provided with the car. Be warned that the taxable benefit for all-electric cars will increase to 9% by 2029/30.

EXAMPLE

On 6 April 2025, TW Ltd provided its director, Elaine, with a brand-new electric car which has a list price of £27,000. TW Ltd also pays for car insurance, servicing and any repairs. TW Ltd can claim a deduction of £27,000 plus the related running costs when calculating its trading profit. The taxable benefit for Elaine is £810 in 2025/26. If she is a higher rate taxpayer, the tax cost of using the car for the entire year will be just £324.

Encourage clean commuting by providing electric charging points

Provide electric vehicle (EV) charging points at your business premises for your employees to use. There is no taxable benefit for the employees who use the electricity to power their cars and the business can claim a 100% deduction for the costs of installing EV charging points before April 2026.

Assist employees with the extra costs of working at home

As an employer you can pay £6 per week (£26 per month) free of tax and NIC to employees who are required to work at home. This could be because they live far away from your office, or because you do not have an office. The allowance is not available where an employee simply chooses where they work.

Help employees meet unexpected bills with small loans

You can provide an interest-free, or low interest loan, to your employees to help them pay any personal bills. The loan must be repayable and it is advisable to have a formal loan agreement in place which sets out the repayment terms. As long as the total amount lent by the employer to the employee does not exceed £10,000 at any point in the tax year, there is no taxable benefit for the employee.

Credit: Ground Picture/Shutterstock.com

Provide free transport to help employees get to work

If your employees are finding it difficult to afford to travel to work, you can lay on a works bus so they can travel to work for free. The vehicle used must seat at least nine passengers. There is no taxable benefit for the employees as long as the bus is used mainly by your employees and their children.

Provide your employees with an annual health check and eye test

The health check is free of tax. Medical treatment paid for by an employer is generally a taxable benefit. However, there is an annual exemption of up to £500 where you fund medical treatment that will assist an employee's return to work from sickness or injury. The eye test is also tax free if the employee needs to use a computer screen or similar display screen as part of their job. Any special corrective lenses required to use that equipment can also be provided tax free.

Supply your employees with one tax-free mobile phone each

An employer-provided mobile phone is tax free, as long as it is the employer rather than the employee who owns the phone and takes out the contract with the telecoms company.

Encourage your employees to cycle to work on a subsidised bicycle

You can lend bicycles and associated safety equipment to employees to use to commute to work and for any other private journeys. The bicycle and safety equipment can be provided instead of a portion of pay under a salary sacrifice arrangement (similar to the tip for all-electric cars). The employee can be invited to buy the bicycle at a significant discount at the end of the loan period, and there is no limit on the value of the bicycle that can be provided.

Tip

Salary sacrifice arrangements are particularly attractive where employees are facing higher marginal tax rates as a result of frozen tax thresholds. Salary sacrifice works well where there is no taxable benefit for the employee (pension contributions and bicycles) or where the amount of taxable benefit is relatively low (all-electric cars).

Provide a nursery or crèche for employees' children

A workplace nursery can be a very valuable benefit for working parents, and it's tax free for the employee if qualifying conditions are met. The employer must be responsible for the management and financing of the nursery, and the care must be provided on the employer's premises or in an area hired for that purpose (which must not be a private home). You will also need to meet local child nursery registration requirements.

Increase employee morale with trivial benefits

Employees and directors can be provided with gifts worth up to £50 per item which are totally free of tax and NICs. The gift must not be cash or a cash voucher, it must not be provided as a reward for services, and the individual must not be entitled to receive the item under any contractual obligation. Directors of close companies and their family members cannot receive more than £300 of such trivial benefits in any one tax year.

EXAMPLE

Brian is the director of his own company, BVC Ltd. He has an interest in botany. BVC Ltd occasionally provides Brian with books and equipment relating to his hobby. As long as each item does not cost more than £50, and the total value of the gifts BVC Ltd makes to Brian in any tax year do not exceed £300, there is no taxable benefit for Brian.

CHECKLIST

- ☐ Review tax-efficient schemes for rewarding employees
- ☐ Consider the tax advantages of providing all-electric company cars, electric charging points and cycle to work schemes
- ☐ Remind employees to take advantage of eye and health checks
- ☐ Boost morale with tax-free gifts

Tax treatment varies according to individual circumstances and is subject to change.

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