TAXANGLES from COMPASS ACCOUNTANTS

A newsletter for proactive planning...

In this edition...

- Should you withdraw your pension to save IHT?
- What counts as a ‘reasonable excuse’?
- Do you have an unclaimed Child Trust Fund?
- File your tax return by 30 December to pay your tax bill through your tax code
- Calculating corporation tax marginal relief
- Companies House changes from 18th November
- Tax diary

November 2025 Issue

www.compassaccountants.co.uk

Should you withdraw your pension to save IHT?

Legislation has been published in draft for inclusion in the Finance Bill which will bring unused pension pots within the charge to inheritance tax from 6 April 2027. In light of this change, pension savers may be considering withdrawing pension funds to prevent such a charge. Is this a good idea?

The first point to note is that this is not yet law and, assuming it does come into effect, it will not do so until 6 April 2027. Therefore, there is no need to be hasty. There is also much speculation that the forthcoming Budget will include further pension changes; but as yet, whether this comes to pass and what such changes will look like is not yet known.

Accessing personal pension savings

Anyone with a money purchase pension plan can currently access this once they have reached age 55. This is to rise to 57 from 6 April 2028.
It should be noted that taking a pension before age 55 (or before age 57 after 6 April 2028) will trigger an unauthorised payment charge. This is potentially very costly and, depending on the amount of the pension pot, which is accessed, could be as much as 55%. At best, the charge will not be less than an IHT charge on unused funds and may actually be more.

Where a person has reached age 55 and wants to flexibly access their pension pot, currently they can take a tax-free lump sum of 25% (capped at £268,275). It remains to be seen whether the Chancellor will opt to change this. Once the tax-free lump sum has been taken, further withdrawals are taxed at the recipient's marginal rate of tax. When making withdrawals, consideration should be given to whether the tax cost of withdrawing funds is more than the potential IHT charge if they remain in the pension pot at death. For additional and higher rate taxpayers, there are no

CONT ON PG 3

savings to be had by withdrawing funds in excess of the tax-free lump sum.
It is also important to remember that once a pension pot has been flexibly accessed, the ability to make further contributions is capped by the money purchase pension allowance (currently £10,000 a year) where this is less than earnings.

Consider the beneficiary

Before withdrawing pension funds to save IHT, it is important to assess who would benefit from those funds if they remained in the pension pot at death. If the beneficiary is a spouse or civil partner, the inter-spouse exemption would be in point and there would be no IHT to pay.

Consider the value of the estate

It is also important to consider the likely value of the death estate and whether it would be sheltered by the available nil rate bands and existing exemptions. If the estate (including any unused pension pots) would not be a chargeable estate, there is no IHT to save by withdrawing the funds.

Consider all tax charges

It is really important that the potential IHT saving is not looked at in isolation – all potential tax charges must be considered to assess whether there are overall savings to be had. Once the tax-free lump sum has been withdrawn, further withdrawals will be taxed at the recipient's marginal rate. If the amounts withdrawn exceed the personal allowance, there will be income tax to pay.

If the amounts are withdrawn (possibly triggering an income tax charge) and remain in the estate at death, the funds will be taken into account in working out the IHT charge on death – it does not matter whether they are inside the pension pot or not.

Consideration may be given to withdrawing funds and making lifetime transfers. Here it depends on how this is done. If a regular pension is withdrawn and the income is passed on, the gifts out of income exemption will apply as long as the donor has sufficient remaining income to live on. If tax is paid at less than 40% on the amounts withdrawn, there may be some tax savings.

If a lump sum is withdrawn and a capital sum is passed on, the donor will need to live for seven years from the date of the gift for the gift to fall out of charge for IHT purposes. Again, the Chancellor may change this rule. There is no one correct answer – the best approach will depend on circumstances and may involve something of a gamble on what the Chancellor may reveal on 26 November.

What counts as a reasonable excuse?

A taxpayer may have grounds for appealing a penalty if they have a reasonable excuse for missing a filing or payment deadline. However, it is important to realise that the appeal will only succeed if HMRC accept that the excuse is indeed reasonable. In this regard, the bar is set high.

The first point to note is that there is no statutory definition of 'reasonable excuse'. Whether a person has a reasonable excuse depends on the circumstances in which the failure to meet the obligation occurred, as well as the circumstances and the abilities of the person who failed to meet the obligation. Consequently, what might be a reasonable excuse for one person may not be a reasonable excuse for someone else.

HMRC's approach

In determining whether an excuse is 'reasonable', HMRC's approach is to look at what a reasonable person with the same attributes and abilities who wanted to comply with their tax obligations would have done in the same circumstances. A reasonable excuse is one that stops a taxpayer from meeting their obligations for a valid reason. In guidance published on the Gov.uk website, HMRC provide the following examples of reasons for a failure to comply which may be accepted as constituting a reasonable excuse:

·The taxpayer's partner or a close relative died shortly before the tax return or payment deadline.
·The taxpayer had an unexpected stay in hospital which prevented them from dealing with their tax affairs.
·The taxpayer had a serious or life-threatening illness.
·The taxpayer's computer or software failed while they were preparing their return online.
·The taxpayer was prevented from completing their tax return because of a flood, a fire or a theft.
·The deadline was missed due to postal delays which the taxpayer could not have predicted.
·The delay related to a disability or a mental illness which the taxpayer has.
·The taxpayer was unaware of or misunderstood their legal obligations.
·The taxpayer relied on someone else to do their return and they failed to do so.
Where the taxpayer has a reasonable excuse for missing a filing deadline or making a payment, they should rectify this as soon as they are able.

Unacceptable excuses

Like 'the dog ate my homework', HMRC do not accept the following excuses as providing a valid reason for missing a filing deadline or failing to make a payment on time:
·A cheque or payment bouncing because the taxpayer did not have enough money in their account.
·Missing the deadline because a reminder was not received from HMRC.
·A mistake was made on the tax return.

Do you have an unclaimed Child Trust Find?

A press release recently published by HMRC revealed that 758,000 young people between the ages of 18 and 23 have a Child Trust Fund which has matured but which they have not claimed. The average Child Trust Fund account is worth £2,242.

Nature of a Child Trust Fund

A Child Trust Fund is a tax-free savings account that was available for children born between 1 September 2002 and 2 January 2011. The scheme closed in 2011. Payments of up to £9,000 a year can be made into an existing Child Trust Fund. The money in the account belongs to the child. They can take control of the account when they reach the age of 16 but can only withdraw the money once they have reached the age of 18. Interest on money held within the account is tax-free.

Finding a Child Trust Fund

Where the Child Trust Fund provider is known, the account holder can contact the provider to locate a missing account. If the provider is not known, the account holder's parent or guardian may be able to help. If they do not know the provider, the account holder can ask HMRC using the dedicated online service. HMRC will be able to tell the account holder where the account was originally opened.

The online service was used by more than 563,000 people in the 12 months to the end of August 2025. To use the service, the account holder will need their National Insurance number. If they do not know this, they can find it on the HMRC app. If the account holder was adopted, they will also need details of their adoption. Where a parent or guardian is using the online tool to find an account, they will need the child's full name, address and date of birth and also any previous names that they or the child have used. If they know the child's National Insurance number, they can provide this too.

It is important to have the information to hand as the form must be completed in one go – it is not possible to save a partially completed form and come back to it later.

The service will only supply details of the provider; it will not tell the account holder or their parent or guardian how much money is in the account. The account holder will need to contact the provider to ascertain the account balance.

File your tax return by 30 December to pay your tax bill through your tax code

The normal filing deadline for the 2024/25 Self Assessment tax return is 31 January 2026. However, if you have some tax to pay under Self Assessment and you also pay tax under PAYE, if you file your return by 30 December 2025, you may be able to pay what you owe through an adjustment to your tax code rather than through the Self Assessment system. This may be the case if, for example, you are employed or receive a pension and also have some income from self-employment or property or you have taxable investment income.

Conditions

Tax due under Self Assessment can only be collected through your tax code if the following conditions are met:

·the total amount that you owe through Self Assessment is £3,000 or less;

·you already pay tax through PAYE (for example, because you are employed or receive a company pension); and

·you filed a paper return by 31 October 2025 or an online return by 30 December 2025.

It should be noted that if the amount you owe is more than £3,000, you cannot make a part payment to reduce the outstanding amount to £3,000 or less and pay the balance through your tax code.

However, even if these conditions are met, you will not be able to pay your Self Assessment tax bill through your tax code if any of the following apply:

·you do not have sufficient PAYE income to collect the amount that is due;

·you would end up paying more than 50% of your income in tax; or

·you would end up paying over twice as much tax as you normally do.

How it works

If you have filed your return by the deadline and you are eligible to pay your tax bill through your tax code, HMRC will automatically adjust your tax code to collect the amount of tax that you owe, unless you indicate that you do not wish to pay your tax in this way. The adjustment will take the form of a deduction from your allowances. The amount of the deduction will depend on how much you owe and your marginal rate of tax. For example, if you pay tax at 40% and owe tax under Self Assessment of £1,000, your allowances will be reduced by £2,500 (40% of £2,500 = £1,000).

The adjustment will be made to your 2026/27 tax code. As a result of the adjustment, you will pay what you owe for 2024/25 in equal instalments throughout 2026/27 each time that you are paid. If you are paid monthly, you will effectively pay your bill in 12 monthly instalments.

Advantages and disadvantages

Paying tax through your tax code allows you to pay it later – instead of having to settle the bill by 31 January 2026, you pay it in equal instalments over the 2026/27 tax year. This provides a cashflow benefit and removes the need to find the funds to pay the bill in one hit. Paying your bill through your tax code also provides an automatic interest-free instalment plan. Unlike a Time to Pay arrangement, you do not need to set it up, and there is no interest to pay either.

However, having your tax deducted from your pay will reduce your take-home pay, so it may not be for everyone.

Calculating corporation tax marginal relief

The rate at which a company pays corporation tax depends on the level of its taxable profits. Where a company's profits are below the lower profits limit, corporation tax is charged on all profits at the rate of 19% and where a company's profits are more than the upper profits limit, they are all taxed at the rate of 25%. However, where the profit falls between these limits, corporation tax is charged at the rate of 25% and reduced by marginal relief. The effect of this is to provide a gradual increase in the rate of corporation tax from the small profits rate to the main rate.

For the financial years 2024 and 2025, the lower profits limit is £50,000 and the upper profits limit is £250,000. Where a company has one or more associated companies, these limits are divided by the number of associated companies plus one, so if a company has one associate, the limits are, respectively, £25,000 and £125,000. The limits are also proportionately reduced where the accounting period is less than 12 months.
Marginal relief is calculated by reference to the following formula:
F x (U – A) x N/A
Where:
F is the marginal relief fraction;
U is the upper profits limit;
A is the augmented profits for the accounting period;
and N is the total taxable profits for the accounting period.

The marginal relief fraction for the financial year 2025 is 3/200, unchanged from the financial year 2024. Augmented profits are the company's total taxable profits plus qualifying exempt distributions received by the company which are not excluded. Qualifying exempt distributions include dividends, distributions of assets, amounts treated as a distribution on the transfer of assets and liabilities and bonus issues following a repayment of share capital.

Distributions are excluded from the calculation of augmented profits if they are from a 51% subsidiary, a company of which the recipient is a 51% subsidiary or a trading company or relevant holding company that is a quasi-subsidiary of the recipient.

If the company has no qualifying exempt distributions to take into account, augmented profits are the same as taxable profits and the formula can be simplified to F x (U – A).

To make things easier, HMRC have produced a tool which can be used to work out marginal relief. This can be found on the Gov.uk website at www.tax.service.gov.uk/marginal-relief-calculator.

Example

A Ltd prepares accounts to 31 March each year. For the year to 31 March 2025, it had taxable profits of £80,000. It does not receive any qualifying exempt distributions. Consequently, its augmented profits are also £80,000. The company's marginal relief is calculated as follows:
3/200 x (£250,000 – £80,000) x 1 = £2,550.

At the main rate, the company would pay corporation tax of £20,000 on its profits (£80,000 x 25%).
The company's corporation tax bill is therefore £17,450, being corporation tax at the main rate of 25% (£20,000) as reduced by the marginal relief of £2,550.
The company's effective rate of corporation tax is 21.81%.

Companies House changes from 18th November

Companies House are introducing identity verification requirements from 18th November 2025.

These changes are being implemented to prevent those people using companies for illegal purposes.

Directors/LLP members and PSC's (People with Significant Control) will need to verify their identity and obtain a unique personal code.

This code is needed to enable the company's confirmation statement to be submitted. Without this code you will not be able to file the company's confirmation statement.

Any confirmation statements due and filed after 18th November 2025 will need this code to enable the confirmation statement to be submitted to Companies House.If you are a PSC and not a director, you will need to file your ID verification code with Companies House 14 days after your birth month. If you are a new PSC you will need to file your ID verification code with Companies House 14 days after your appointment.For new PSC's who are also directors you will need to provide your code when you register the new company or are appointed.

Each director/LLP member and PSC will need to set up a government log in (see below). Once the log in has been created, you will then need to follow the steps in the second link to verify your ID and obtain your personal code. You will need your passport or driving licence to do this.

Companies House are introducing identity verification requirements from 18th November 2025.These changes are being implemented to prevent those people using companies for illegal purposes.

Directors/LLP members and PSC's (People with Significant Control) will need to verify their identity and obtain a unique personal code.

Companies House are introducing identity verification requirements from 18th November 2025.

These changes are being implemented to prevent those people using companies for illegal purposes.

Directors/LLP members and PSC's (People with Significant Control) will need to verify their identity and obtain a unique personal code.This verification only needs to be done once and can be used for all companies that you are involved with. Once you have obtained your code, please can you provide it to us to keep on record.

Failure to file a confirmation statement can lead to fines, prosecution, and the company being struck off.

If you need any help or guidance, please do let us know.

TAX DIARY

NOVEMBER

1st November - For companies with January year ends Corporation Tax is due
7th November - Electronic Payments of VAT must have reached HMRC
7th November - Electronic Submission of VAT returns deadline
19th November - October's PAYE and Class 1 NIC Postal Payment must reach HMRC
22nd November - October's PAYE and Class 1 NIC Electronic Payment must be cleared to HMRC
30th November - For companies with November year ends Corporation Tax Returns are due

For further information on any of the stories in this month's newsletter, or for any other matter that Compass Accountants can assist you with, please contact us on 01329 844145 or contact@compassaccountants.co.uk

To subscribe to the newsletter, so that each edition is delivered to your inbox, go to www.compassaccountants.co.uk and add your contact details.

Compass Accountants, Venture House, The Tanneries, East Street, Titchfield Hampshire. PO14 4AR

COMPASS
ACCOUNTANTS