TAXANGLES from COMPASS ACCOUNTANTS

A newsletter for proactive planning...

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February 2026 Issue

www.compassaccountants.co.uk

Capital gains tax annual exempt amount – Use it or lose it!

The 2025/26 tax year comes to an end on 5 April 2026. If you are thinking of selling assets that may realise a gain and have yet to use your 2025/26 capital gains tax annual exempt amount, it may be worth making the disposal before the end of the current tax year.
All individuals have an annual exempt amount for capital gains tax purposes. Net gains for the year (after the deduction of allowable losses for the tax year) are free of capital gains tax where they are sheltered by the annual exempt amount. For 2025/26, it is set at £3,000 and is worth £540 to a basic-rate taxpayer and £720 to a higher-rate taxpayer. If the annual exempt amount is not used in the tax year, it is lost.

Example

Ben is thinking of selling two lots of shares, one that will realise an expected gain of £4,000 and one that will realise an expected gain of £5,000. He is having a new kitchen in June 2026 and needs to sell the shares to finance the project.

Ben is a higher rate taxpayer. He has not used his annual exempt amount for 2025/26.
Ben waits until May to sell the shares, he will realise a gain of £9,000 in the 2026/27 tax year. Setting his 2026/27 annual exempt amount of £3,000 against the gain reduces the chargeable gain to £6,000 on which he will pay capital gains tax at 24%, giving rise to a tax bill of £1,440.

However, if Ben sells one lot of shares before 6 April 2026 realising a gain of £4,000 against which he can set his annual exempt amount for 2025/26 of £3,000, this will reduce the chargeable gain to £1,000 on which he will pay capital gains tax of £240.

If he sells the remaining shares after 5 April 2026, he will be able to set his 2026/27 annual exempt amount of £3,000 against the gain of £5,000, reducing his chargeable gain to £2,000 on which he pays tax of £480. By selling some of the shares in 2025/26 rather than in 2026/27 and using his annual exempt amount for 2025/26 which would otherwise have been wasted, Ben is able to reduce the capital gains tax payable on the disposal of his shares by £720 from £1,440 to £720.

Spouses and civil partners

Spouses and civil partners can take advantage of the special rules that allow them to transfer assets or a share in an asset between them at a value that gives rise to neither a gain nor a loss. This can prevent wasting one spouse or civil partner's annual exempt amount.

Example

Julie is planning on selling some shares in March 2026 which would give rise to a gain of £7,000. She has not used her annual exempt amount for 2025/26, nor has her wife Jane. Jane is not planning on making any disposals in 2025/26. If Julie simply sells her shares, she will realise a gain of £7,000, of which £3,000 will be sheltered by her annual exempt amount. If Julie is a basic rate taxpayer, she will pay tax of £720 on the chargeable gain of £4,000 (£4,000 @ 18%).

However, if she transfers 3/7th of her shares to Jane which Jane then sells in March 2026 the resulting gain of £3,000 will be covered by her annual exempt amount and no capital gains tax will be payable. Following the transfer, Julie will realise a gain of £4,000 of which £3,000 is covered by her annual exempt amount, reducing her chargeable gain to £180. By making use of Jane's annual exempt amount, the couple save tax of £540.

Claiming a Tax Refund

It is reasonable to assume that if a person pays too much tax, HMRC will automatically send the overpayment back to them. Unfortunately, this is not the case, and where a taxpayer is due a tax refund, they may need to claim it.

Why an overpayment may arise

There are various reasons why a person may pay more tax than they need to. For example, where a taxpayer is in Self-Assessment and makes payments on account, if their circumstances change and their income falls, they may have paid more than they need to. An employee may pay too much tax if they have been given the wrong tax code, or if they have only worked for part of the tax year and not had the benefit of their full personal allowance.

Determining if you have overpaid tax

There are various routes by which a tax overpayment can come to light. For example, taxpayers who do not complete a Self-Assessment tax return and have paid too much tax will receive either a P800 calculation or a Simple Assessment letter. These are normally sent out between June and March following the end of the tax year. The letter will tell them that they have paid too much tax and how to claim a refund. If the taxpayer is within Self-Assessment, they will not receive a letter. However, they may find out that they have overpaid tax when they complete their Self-Assessment tax return. However, if HMRC's return software is used to complete the return, remember the tax calculation does not take into account any payments that have already been made, and when these are deducted from the amount that the taxpayer owes, it may become clear that the taxpayer has paid too much. A taxpayer can also check whether they have paid too much by looking at their personal tax account online or via the HMRC app.

Claiming the refund

Where a taxpayer needs to claim a tax refund, there are various ways in which this can be done. A claim can be made online using the tool on the Gov.uk website at www.gov.uk/claim-tax-refund. A tax refund can also be claimed through the taxpayer's personal tax account or via the HMRC app. The refund will normally be made within five days of making the claim online. If the tax calculation letter tells the taxpayer that they will receive a cheque, they do not need to claim a refund. The cheque will normally be sent within 14 days of the date on the letter.

Where the taxpayer is within Self-Assessment, HMRC may not issue a tax refund if a tax payment, for example, a payment on account, is due within 45 days. Instead, they will set the refund against the next tax bill.
Interest is paid on overpaid tax at a rate of 1% below the Bank of England base rate, subject to a minimum level of 0.5%.

Tax implications of reimbursing employees' expenses

Employees often incur expenses in doing their job and they may be able to claim these back from their employer through the expenses system. Where an employer reimburses expenses, there may be tax implications to consider.

Exemption for paid and reimbursed expenses

A tax exemption applies to certain paid and reimbursed expenses. It is available if the expenses which are paid or reimbursed by the employer would be fully deductible from an employee's earnings had the employee met the cost themselves.

Employees are allowed a deduction for expenses which are incurred wholly, exclusively and necessarily in the performance of the duties of the employment. The tax legislation also allows a deduction for a number of specific expenses, such as certain travel expenses and fees and subscriptions paid to bodies approved by HMRC.

As long as this test is met, the exemption applies regardless of whether the employer meets the cost at the outset or the employee pays initially and is reimbursed by the employer. For example, if an employee is required to attend a meeting at a client's office, the employee would be able to deduct the associated travelling costs if they met them themselves.

As this test is met, if the employer pays the cost, for example by purchasing a train ticket for the employee, or reimburses the employee's travel costs, the exemption would apply and there would be no tax consequences in either case.

However, if the test is not met, and the employer paid or reimbursed the employee's expenses, the amount paid or reimbursed would be taxable. An example of this would be where an employer reimbursed the cost of the employee's home to work travel (which is not tax deductible).

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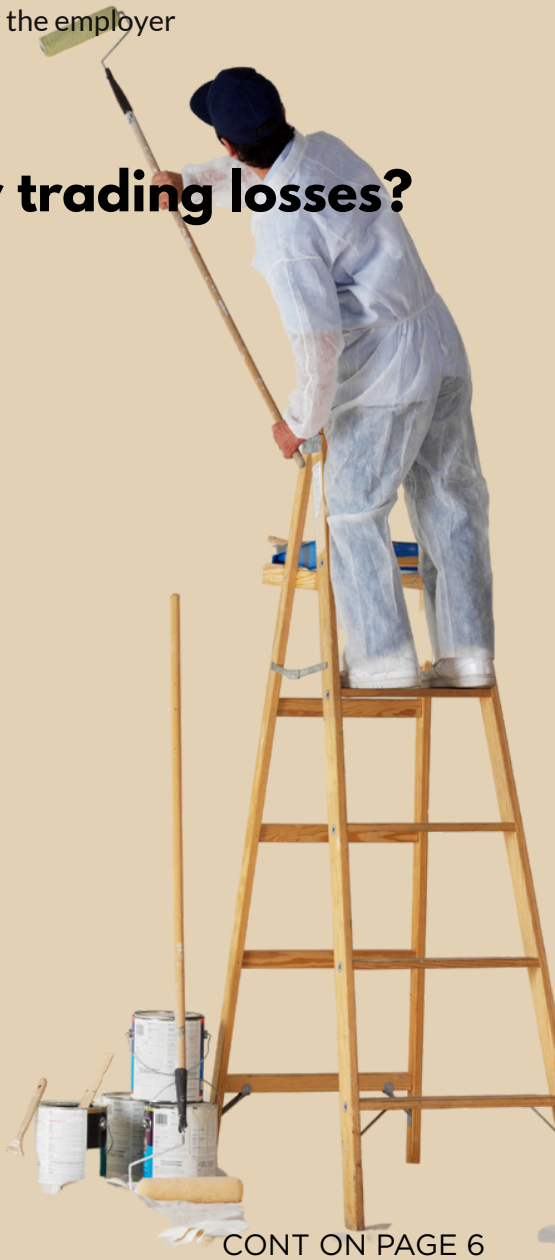
Forthcoming changes

There are some anomalies in the tax legislation that mean no tax charge arises where the employer provides an employee with a benefit, but a tax charge will arise if the employee provides the same thing and is reimbursed by their employer. For example, an employer can provide an employee with an eye test and corrective appliances without triggering a tax charge, but if an employee books and pays for an eye test and is reimbursed by their employer, the amount reimbursed is taxable as the employee is not entitled to a deduction for the cost of an eye test.

To counter this, new exemptions are to be introduced which will level the playing field in respect of certain benefits, meaning that the tax outcome is the same regardless of whether the employer provides the benefit or reimburses the employee for the costs.

From 6 April 2026 exemptions will be introduced to ensure that where an employer pays for or reimburses an employee for the cost of eye tests, flu vaccines or homeworking equipment no tax charge will arise. This will align the tax position with that where these benefits are provided directly by the employer



How can sole traders obtain relief for trading losses?

In difficult trading conditions, a sole trader may realise a loss rather than a profit. Where this is the case, it is important that the trader realises that they may be able to claim tax relief for that loss. There is more than one way in which this can be done, and the best route will depend on the trader's other income and personal circumstances.

The relief must be claimed.

Option 1: against other income of the same or previous tax year

Where the trader has other income, such as income from employment, property or investments, they can claim to set the loss against their income of the same tax year and/or the previous tax year. The trader can make a claim for one or both of these years, depending on the amount of the loss, and the claims can be made in any order.It is important to note that it is not possible to make a partial claim, for example to prevent the loss of personal allowances. A claim is not mandatory, and where it is not beneficial, for example, because personal allowances may be lost, the trader can take a different route.

Example

Joe is a self-employed decorator. In 2024/25 he made a loss of £12,300. He has a part-time job, from which he earns £14,000. In 2023/24 Joe had total income of £42,000.

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If Joe opts to set the loss against his other income of 2024/25, he will waste all but £1,700 of his personal allowance. It is not possible to use only £1,430 of the loss to reduce his income to £12,570 which would be covered by his personal allowance.

However, if he sets the loss against his income of 2023/24, he will reduce his income to £29,700, saving £2,460 in tax.

Option 2: extension to capital gains

Where the taxpayer has claimed relief against other income and is unable to use all the loss, the taxpayer may be able to use the balance against capital gains of that year. Depending on the numbers, this route may result in the loss of the capital gains tax annual exempt amount, although despite this, it may still be worthwhile.

Option 3: Carry forward against future trading profits

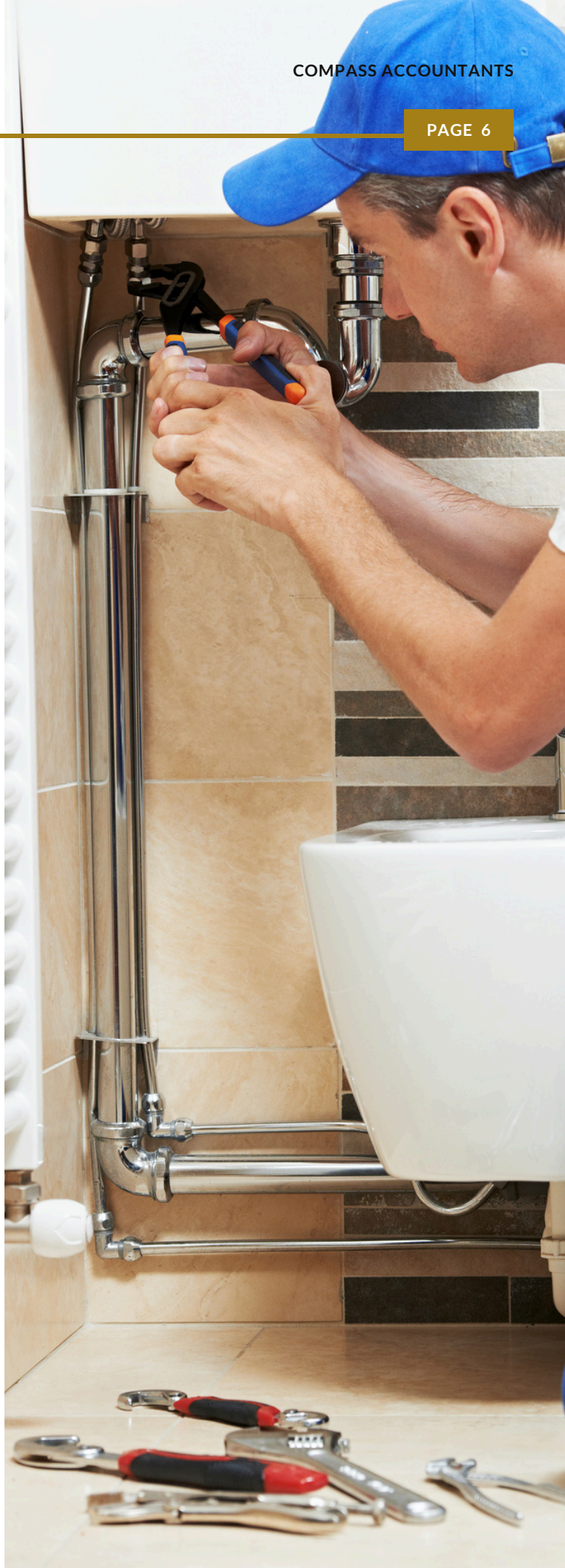
Although conventional wisdom is to secure relief for a loss as early as possible, if a claim against other income would waste the personal allowance, it may be preferable to carry the loss forward and set it against future profits of the same trade. Where this route is taken, the loss must be set against the first available trading profits.

Opening and closing years

Additional claims are available for losses made in the opening and closing years of a trade. A loss made in the first four years of a trade may be set against an individual's income for the previous three tax years, setting the loss against the earliest of those years first. Where a loss is made in the final 12 months of a trade (a terminal loss), it may be set against profits from the same trade in the same tax year as the loss and in the previous three tax years. The loss is relieved against the profits of a later year first.

Loss relief cap

The amount of loss relief that a person can claim in any one tax year is in certain cases capped at the higher of £50,000 and 25% of their adjusted net income for that tax year.



Keeping digital records for Making Tax Digital

Making Tax Digital for Income Tax Self-Assessment (MTD for ITSA) will apply from 6 April 2026 to sole traders and unincorporated landlords with combined trading and property income in 2024/25 of at least £50,000.

Under MTD for ITSA, traders and landlords must keep digital records and make digital returns to HMRC using MTD-compatible software.

A digital record is a record of income and expenses that is created and stored in software that works with MTD for ITSA. Under MTD for ITSA, a trader must keep digital records of their trading income and expenses, and an unincorporated landlord must keep digital records of their property income and expenses. If a trader or landlord has other income, there is no need for them to keep records of that income digitally.

Software

Traders and landlords within MTD for ITSA will need to use software that either creates digital records and submits information to HMRC or software which connects to the trader or landlord's own record-keeping software, such as a spreadsheet. This type of software is known as bridging software.

Taxpayers can choose a single product that meets all their needs or a number of products that work together. Where more than one product is used, they must link digitally. For example, it is acceptable to keep records in a spreadsheet which is linked digitally to software to submit information to HMRC. However, it is not acceptable to manually enter or cut and paste data from a spreadsheet into a software package.

Records that must be kept digitally

The following records must be kept digitally:

· self-employment income, such as sales, takings and fees;

· self-employment expenses, such as the cost of goods, travel costs, office costs, rent, etc.;

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· property income, such as rent, lease premiums, reverse premiums and inducements; and
· property expenses, such as repairs, maintenance, travel, etc.

The amount, the date the income was received or payment made and the nature of the income or expense should be recorded. The income and expenditure categories for MTD for ITSA are the same as for the Self-Assessment tax return. If a trader has more than one business, they will need to keep the details for each business separately and make separate quarterly returns for each business. Landlords should keep separate records for their UK and foreign property businesses.

Jointly let properties

Where a landlord has income from a jointly let property, they only need to keep digital records relating to their share of the income and expenses. Landlords with income from jointly let properties can opt to keep less detailed records or to exclude income from jointly let properties in their quarterly updates; the income is instead included when the position for the tax year is finalised.

Turnover below the VAT threshold

If a trader's turnover from a single self-employment is £90,000 or less, they only need to record whether a transaction is income or an expense. More detail is not required. Landlords with income from residential letting need to record whether a transaction is an income or an expense and, where it is an expense, whether it is a restricted finance cost. Once income reaches £90,000, transactions must be fully categorised.

Retailers

Retailers can create a digital record of gross daily takings rather than having to record each individual sale.

Storing digital records

Digital records must be kept for at least five years from the 31 January submission date for the tax year in question, i.e. for 2026/27, until 31 January 2033.

TAX DIARY

FEB

1 February 2026 – Due date for Corporation Tax payable for the year ended 30 April 2025.
19 February 2026 – PAYE and NIC deductions due for month ended 5 February 2026. (If you pay your tax electronically the due date is 22 February 2026)
19 February 2026 – Filing deadline for the CIS300 monthly return for the month ended 5 February 2026.
19 February 2026 – CIS tax deducted for the month ended 5 February 2026 is payable by today.

MARCH

1 March 2026 – Due date for Corporation Tax due for the year ended 31 May 2025.
2 March 2026 – Self-Assessment tax for 2024-25 paid after this date will incur a 5% surcharge unless liabilities are cleared by 1 April 2026, or an agreement has been reached with HMRC under their time to pay facility by the same date.
19 March 2026 – PAYE and NIC deductions due for month ended 5 March 2026 (If you pay your tax electronically the due date is 22 March 2026).
19 March 2026 – Filing deadline for the CIS300 monthly return for the month ended 5 March 2026.
19 March 2026 – CIS tax deducted for the month ended 5 March 2026 is payable by today.

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

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