

# TAXANGLES

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# COMPASS

ACCOUNTANTS

## A newsletter for proactive planning...



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## March 2026 Issue

[www.compassaccountants.co.uk](http://www.compassaccountants.co.uk)

# Five year-end tax planning tips

*As the end of the 2025/26 tax year approaches, it is a good idea to undertake a financial review and assess whether there is any action you can take to cut your tax bill.*

## Tip 1 – Don't waste your personal allowance

If you have not used your 2025/26 personal allowance, it will be lost – you cannot carry it forward to 2026/27. To prevent wasting it, consider whether you can advance income so that you receive it in 2025/26 rather than in 2026/27. If you are claiming capital allowances, consider tailoring your allowances so you do not waste your personal allowance. If you have a family company, consider paying a dividend to mop up your dividend allowance and any unused personal allowance. If you cannot use your personal allowance and you are married or in a civil partnership and your spouse/civil partner pays tax at the basic rate, consider making a marriage allowance claim to transfer £1,260 of your allowance to them – this can cut your joint tax bill by £252.

## Tip 2 – Reduce your income to protect your personal allowance

Once adjusted net income reaches £100,000, your personal allowance is reduced by £1 for every £2 by which your income exceeds this level. Once adjusted net income reaches £125,140, the personal allowance is lost. However, consideration could be given to making pension contributions or Gift Aid donations to charity to reduce your income and claw back some or all of your personal allowance.

## Tip 3 – Invest in an ISA

If you have not already invested the full £20,000 in an ISA in 2025/26, consider using the full allowance before 6 April 2026. Interest and dividends within an ISA are tax-free.

From 6 April 2027, the tax rates on savings income will rise by two percentage points. From the same date, under 65s will only be able to invest £12,000 of their £20,000 ISA allowance in a cash ISA.



#### Tip 4 – Beat the dividend tax rise

From 6 April 2026, the dividend ordinary rate (which applies to dividends falling in the basic rate band) and the dividend upper rate (which applies to dividends falling in the higher rate band) increase by two percentage points.

The dividend ordinary rate rises from 8.75% to 10.75% and the dividend upper rate rises from 33.75% to 35.75%. There is no change in the dividend additional rate which remains at 39.35%. If you have a personal or family company which has retained profits, consider paying a dividend before 6 April 2026 to beat the dividend tax rises.

#### Tip 5 – Make pension contributions

Tax-relieved contributions can be made to a registered pension scheme up to 100% of earnings (or £3,600 if lower) subject to having sufficient available annual allowance.

The annual allowance is set at £60,000 for 2025/26. However, where threshold income exceeds £200,000 and adjusted net income exceeds £260,000, it is reduced by £1 for every £2 by which adjusted net income is more than £260,000 until the allowance is reduced to £10,000.

Unused allowances can be carried forward for up to three years. Any allowance from 2022/23 will be lost if not used by 5 April 2026; however, you must use up all your 2025/26 allowance before using allowances from earlier years.

Once a pension has been flexibly accessed, the annual allowance is reduced to £10,000.



# Are you paying sufficient National Insurance for a full state pension?

State pension entitlement depends on a person having sufficient qualifying years, which in turn depends on them having paid or been treated as having paid sufficient National Insurance contributions. A person will receive the full single tier state pension (also known as the new state pension) if they have at least 35 qualifying years.

Where a person has less than 35 qualifying years but at least ten, they will receive a reduced state pension. A person with less than ten qualifying years does not receive a state pension. Only the individual's own qualifying years count – a person cannot qualify for the new state pension by virtue of contributions paid by their spouse or civil partner.



## Employed earners

It is the payment of primary Class 1 National Insurance contributions which provides a qualifying year for employees. An employee will secure a qualifying year for state pension purposes if their earnings for that year are at least equal to the lower earnings limit for Class 1 National Insurance purposes. For 2025/26, this is £6,500. For 2026/27, it will rise to £6,708.

However, a person's liability to pay Class 1 National Insurance only starts once their earnings exceed the primary threshold, which for 2025/26 and 2026/27 is £242 per week (£1,048 per month; £12,570 per year). Where an employee's earnings are between the lower earnings limit and the primary threshold, they do not actually pay Class 1 contributions but are treated as if they have paid notional primary Class 1 contributions at a zero rate. This provides them with a qualifying year for zero contribution cost.

## Self-employed earners

For 2024/25 and later tax years, self-employed earners secure a qualifying year through the payment of Class 4 National Insurance contributions. A self-employed earner is liable to pay Class 4 contributions for a year in which their profits exceed the lower profits limit, which for both 2025/26 and 2026/27 is set at £12,570. However, where a self-employed earner's profits are between the small profits threshold (set at £6,845 for 2025/26 and £7,105 for 2026/27) and the lower profits limit, the self-employed earner receives a National Insurance credit which provides them with a qualifying year.

Self-employed earners whose profits are below the small profits threshold can opt to pay voluntary Class 2 contributions, at a rate of £3.50 per week for 2025/26 and £3.65 per week for 2026/27.

For 2023/24 and earlier tax years, it was the payment of Class 2 National Insurance contributions which provided the self-employed earner with a qualifying year. Class 4 National Insurance had no associated benefit entitlement prior to 6 April 2024. A self-employed earner needed to pay 52 weeks of Class 2 contributions to earn a qualifying year.

For 2022/23 and 2023/24, the liability arose where profits exceeded the lower profits threshold. However, where profits were between the small profits threshold and the lower profits threshold, the self-employed earner received a credit, providing them with a qualifying year.

For 2021/22 and earlier years, self-employed earners whose profits exceeded the small profits threshold were liable for Class 2 contributions. Self-employed earners with profits below the small profits threshold could pay Class 2 contributions voluntarily to secure a qualifying year.

## National Insurance credits

There are a number of circumstances in which an individual may receive a National Insurance credit which will provide them with a qualifying year. This is the case where a person receives or is entitled to receive child benefit or is in receipt of certain state benefits.

## Voluntary contributions

A person can pay voluntary Class 3 or, if eligible, voluntary Class 2 National Insurance contributions to plug gaps in their contribution record. Where a person is eligible to pay voluntary Class 2 contributions, this is a much cheaper option.

## Check your state pension forecast

A person should check their state pension forecast online to see how many qualifying years they have and whether they will have 35 qualifying years by the time they reach state pension age. Where a person will not qualify for a state pension, they can consider paying voluntary contributions to make up a shortfall. This will only be worthwhile if, after making the contributions, the individual will have at least ten qualifying years when they reach state pension age.





## Taking a dividend before 6 April 2026

As the tax year draws to a close, directors of personal and family companies should consider whether it is worthwhile paying a dividend before 6 April 2026. However, it is only possible to pay a dividend where the company has sufficient retained profits from which to pay it. Also, where a class of share has more than one shareholder, dividends must be paid in proportion to shareholdings.

### Unused allowances

Where a shareholder has not used their dividend allowance (set at £500 for 2025/26) or their personal allowance in full, consideration should be given to paying a dividend before the end of the tax year to mop up unused dividend and personal allowances. This allows profits to be extracted from the company without an additional tax liability. Where the company has an alphabet share structure, dividends can be tailored to the shareholder's circumstances.

### Beat the dividend tax rise

Once the dividend and personal allowances have been used up, dividends are currently taxed at 8.75% where they fall in the basic rate band, at 33.75% where they fall in the higher rate band and at 39.35% where they fall in the additional rate band. From 6 April 2026, the dividend ordinary rate is increased from 8.75% to 10.75% and the dividend upper rate is increased from 33.75% to 35.75%. There is no change in the dividend additional rate which remains at 39.35%.

Where dividends fall in the basic or higher rate band, an additional 2% will be payable in tax if the dividend is paid on or after 6 April 2026 compared to a dividend paid before that date. Where retained profits allow, consideration could be given to accelerating a dividend payment so that it is made before 6 April 2026 rather than on or after that date. This will save £20 in tax for every £1,000 paid as a dividend. However, if a dividend will be taxed at the ordinary dividend rate if paid in 2026/27 and at the upper dividend rate if paid in 2025/26, there is no point accelerating the dividend – 10.75% is a lot less than 33.75%.

# APR and BPR and the £2.5m allowance

From 6 April 2026, the 100% rate of agricultural property relief (APR) and business property relief (BPR) is only available on the first £2.5m of qualifying business and agricultural property. The allowance was increased to £2.5m from £1m following extensive lobbying by farmers.

## APR

Agricultural property relief (APR) allows a person to pass on agricultural property either free of inheritance tax or at a reduced rate either during their lifetime or on their death. Agricultural property eligible for relief includes growing crops, stud farms for breeding and rearing horses and grazing, short rotation coppice, land not currently been farmed under the Habitat Scheme or under a crop rotation scheme, the value of milk quotas associated with the land, some agricultural shares and securities, farm buildings, farm cottages and farmhouses.

Farm equipment and machinery, derelict buildings, harvested crops, livestock and property subject to a binding contract for sale do not qualify for APR. The relief is now only available where the property is part of a working farm in the UK. It can be owner occupied or let. Prior to the transfer, the land must have been owned and occupied for agricultural purposes for two years if occupied by the owner, a company controlled by them or by their spouse or civil partner and for seven years if occupied by someone else (such as a tenant).

The 100% rate is available where the person who owned the farm farmed it themselves, the land was used by someone else on a short-term grazing licence or it was let on a tenancy that began on or after 1 September 1995. Some properties owned before 10 March 1981 qualify for 100% relief.

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## **BPR**

Business property relief (BPR) reduces the value of an asset for inheritance tax purposes by 100% or by 50% depending on the nature of the asset. Relief is currently available at the 100% rate on a transfer of a business or shares in an unlisted company.

Relief is available at 50% for:

- shares controlling more than 50% of the voting rights in a listed company;
- land, buildings or machinery owned by the deceased and used in a business in which they were a partner or they controlled; and
- land, buildings or machinery used in a business and held in a trust that the business has the right to benefit from. Relief is only available if the deceased owned the business or the asset for at least two years prior to their death. Shares in certain companies, such as those dealing mainly in stocks, shares, land and buildings do not qualify.

Relief is not available if the asset also qualifies for APR, if the asset has not been used in the business in the two years before it was passed on as a gift or it is not needed for use in the business in the future.

## **The £2.5m allowance**

The £2.5m allowance is available in addition to the nil rate band (NRB) and the residence nil rate band (RNRB). However, as the RNRB is reduced by £1 for every £2 by which the deceased's estate exceeds £2m, being lost entirely for estates worth £2.35m and above, where a person uses their £2.5m APR/BPR allowance in full, they will not also be able to benefit from the RNRB.

As with the NRB and the RNRB, where an individual's estate does not use the allowance in full, it can be used by the estate of their surviving spouse or civil partner.

Once the allowance has been used in full, transfers of assets that would otherwise qualify for 100% APR or BPR will receive relief at 50%.



## Section 455 tax and the change in the dividend upper tax rate

In personal and family companies, director shareholders often borrow money from the company. Where a company is close, as most personal and family companies are, if a loan to a director or other participator remains outstanding on the corporation tax due date for the period in which the loan was taken out, the company must pay tax on the outstanding amount of the loan.

Corporation tax is due nine months and one day from the end of the accounting period.

The tax that is due on the outstanding loan balance is known as section 455 tax. While it is payable with the corporation tax for the period, it is not corporation tax. Unlike most taxes, it is a temporary tax as it is repayable nine months and one day after the end of the period in which the loan is repaid. The rate of section 455 tax is linked to the dividend upper rate. This is set at 33.75% for 2025/26 and will rise to 35.75% for 2026/27.

Where a director is thinking of taking a loan from a company and is unlikely to repay it within nine months of the company year end, taking the loan in 2025/26 rather than in 2026/27 will reduce the section 455 tax paid by the company on the outstanding loan by 2%.

As the rate of section 455 tax paid on a loan depends on the dividend upper rate at the time the loan is made, when clearing loans, it makes sense to clear those that will generate the highest repayment first (i.e. those on which the rate of section 455 tax is the highest).

### Example

A Ltd is Andrew's personal company. The company prepares accounts to 30 June each year. Andrew, the sole director shareholder is planning on taking a £30,000 loan from the company in April 2026. He is planning on repaying it in 2028 when a savings policy matures. The loan will remain

outstanding on 1 April 2027 when the corporation tax for the period is due.

If Andrew takes the loan on 30 April 2026 as planned, the company will need to pay section 455 tax of £10,725 (£30,000 @ 35.75%) on 1 April 2027. However, if instead Andrew takes the loan a month earlier on 31 March 2026, the company's section 455 tax bill will be £10,125 (£30,000 @ 33.75%). Taking the loan before 6 April 2026 saves the company £600. in tax.



# TAX DIARY

## MARCH

- 1st March - Corporation Tax payment: 31 May 2025 year ends
- 1st March- Advisory fuel rates for company car drivers: new rates published
- 7th March - VAT return submission and payment (online): month-end or quarter 31 January 2026
- 19th March - PAYE, NIC and CIS payment (postal): month-end 5 March 2026
- 19th March - CIS return: payments made to subcontractors in the month to 5 March 2026
- 22nd March - PAYE, NIC and CIS payment (electronic): month-end 5 March 2026
- 31st March- Corporation Tax returns: 31 March 2025 year ends
- 31st March - Annual Tax on Enveloped Dwellings: amend ATED returns for year to 31 March 2025

## APRIL

- 1 April – Due date for corporation tax due for the year ended 30 June 2025.
- 19 April – PAYE and NIC deductions due for month ended 5 April 2026. (If you pay your tax electronically the due date is 22 April 2026).
- 19 April - Filing deadline for the CIS300 monthly return for the month ended 5 April 2026.
- 19 April- CIS tax deducted for the month ended 5 April 2026 is payable by today.
- 30 April – 2024-25 tax returns filed after this date will be subject to an additional £10 per day late filing penalty for a maximum of 90 days.

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