# TAXANGLES from

COMPASS
ACCOUNTANTS

## A newsletter for proactive planning...

**April 2026 Issue**

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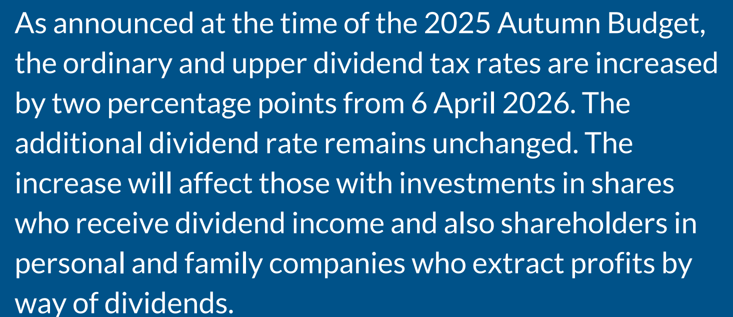
## In this edition...

- Taxation of dividends in 2026/27
- Costs of working from home
- Reduction in WDAs from April 2026
- Taxation of company vans in 2026/27
- Understanding your tax code
- Tax diary

# Taxation of dividends in 2026/27



As announced at the time of the 2025 Autumn Budget, the ordinary and upper dividend tax rates are increased by two percentage points from 6 April 2026. The additional dividend rate remains unchanged. The increase will affect those with investments in shares who receive dividend income and also shareholders in personal and family companies who extract profits by way of dividends.

All taxpayers, regardless of the rate at which they pay tax, receive a dividend allowance. This is set at £500 for 2026/27, unchanged from the previous year. The dividend allowance acts as a nil rate band, and dividends sheltered by the allowance are received free of tax. However, the allowance uses up part of the tax band in which it falls.

Where dividends are not sheltered by the dividend allowance, they are treated as the top slice of income and taxed at the dividend tax rates. The dividend ordinary rate applies to dividends falling within the basic rate band and is set at 10.75% for 2026/27 (up from 8.75% for 2025/26). Dividends falling in the higher rate band are taxed at the dividend upper rate which is set at 35.75% for 2026/27 (up from 33.75% for 2025/26). Where dividends fall in the additional rate band, they are taxed at the dividend additional rate, which remains at 39.35% for 2026/27.

The tax rises mean that taxpayers paying tax on their dividends at the ordinary or upper dividend rates will pay an additional £20 in tax for every £1,000 of dividend income in 2026/27.

Example
John is retired. He receives a pension of £20,000 each year. He has invested in shares over the years and receives dividends of £30,000 a year which boost his retirement income.

For 2026/27, he will pay tax of £3,171.25 on his dividend income. The first £500 of dividends is tax free, being sheltered by the dividend allowance of £500. The

CONT ON PG 3

remaining £29,500 is taxed at the dividend ordinary rate of 10.75%. After tax, John retains £26,828.75.
In 2025/26, he also received dividend income of £30,000. However, his tax bill for that year was £2,581.25, leaving John with £27,418.75 after tax.
As a result of the rise in the dividend ordinary rate, John is £590 worse off in 2026/27 (£29,500 @ 2%).

**Impact on profit extraction**

For directors of personal and family companies, a popular profit extraction strategy is to take a salary equal to the personal allowance and to extract further profits as dividends. Where the dividends are taxed at the ordinary or upper dividend rates, the director/shareholder will pay more tax on those dividends than in 2025/26.

**Example**

Julia runs a personal company. She prepares accounts to 31 March each year. In the year to 31 March 2027, she expects to make a profit of £80,000 after tax, having taken a salary of £12,570 from the company. She extracts the profits as dividends. Apart from the salary from the company, she has no other income.
The first £500 of the dividends are sheltered by her dividend allowance. The dividend allowance uses up £500 of the basic rate band, leaving £37,200 available.

The first £37,200 of the remaining dividend falls in the basic rate band and is taxed at the dividend ordinary rate of 10.75% – a tax hit of £3,999.
The remaining £42,300 of the dividend falls in the higher rate band and is taxed at the dividend upper rate of 35.75% – a tax hit of £15,122.25.

Consequently, Julia pays tax of £19,121.25 on her dividend of £80,000, leaving her with £60,878.75.
Assuming she also took a dividend of £80,000 in 2025/26, she would have paid tax of £17,531.25, leaving her with £62,468.75. As a result of the increase in the ordinary and upper dividend tax rates, she is £1,590 worse off in 2026/27 (£79,500 @ 2%).
Taxpayers whose dividends are taxed at the dividend additional rate are unaffected by these changes.

# Costs of working from home

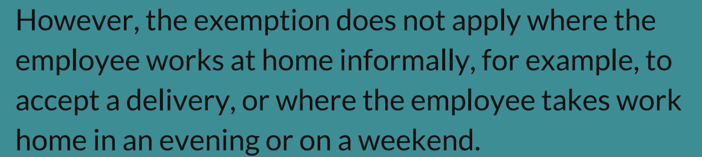
When an employee works from home, they may incur additional costs as a result, such as higher gas and electricity bills. The tax system offers some help where the employer meets some or all of these additional costs. However, the relief that was previously available where employees met these costs themselves is withdrawn from 6 April 2026.

**Expenses reimbursed by the employer**

No tax liability arises where an employer makes a payment to an employee in respect of reasonable household expenses which the employee incurs while carrying out the duties of the employment at home under homeworking arrangements. These are arrangements between the employer and the employee under which the employee regularly performs some or all of the duties of the employment from home. For these purposes, household expenses are defined as expenses connected with the day-to-day running of the employee's home. This includes the cost of heating and lighting the work area and the metered cost of extra water, additional insurance costs and the cost of business telephone calls. However, costs that are the same regardless of whether the employee works at home or not, such as rent, mortgage costs and council tax, do not count.

Although homeworking arrangements must be in place for the exemption to apply, there is no requirement for them to be in writing. Under those arrangements, the employee must work at home rather than at the employer's premises. The exemption will also apply to hybrid arrangements where the employee works at home on certain days and at the employer's premises on the remaining days.

CONT ON PAGE 5



However, the exemption does not apply where the employee works at home informally, for example, to accept a delivery, or where the employee takes work home in an evening or on a weekend.

To remove the administrative burden of working out the actual extra costs, employers can instead pay employees £6 per week tax free to cover their additional household expenses. The amount is the same regardless of whether an employee works at home one day a week or five days a week. Employers can reimburse the actual additional household costs instead where these are higher as long as evidence can be provided to justify the amount paid.

## Employee meets cost

Prior to 6 April 2026, where employees incurred additional household costs as a result of working from home and these were not reimbursed by the employer, they could claim tax relief for these additional costs. An administrative easement allowed them to claim a fixed deduction of £6 per week (an annual deduction of £312). Where the easement was used, it was not necessary to provide evidence in support of the deduction.

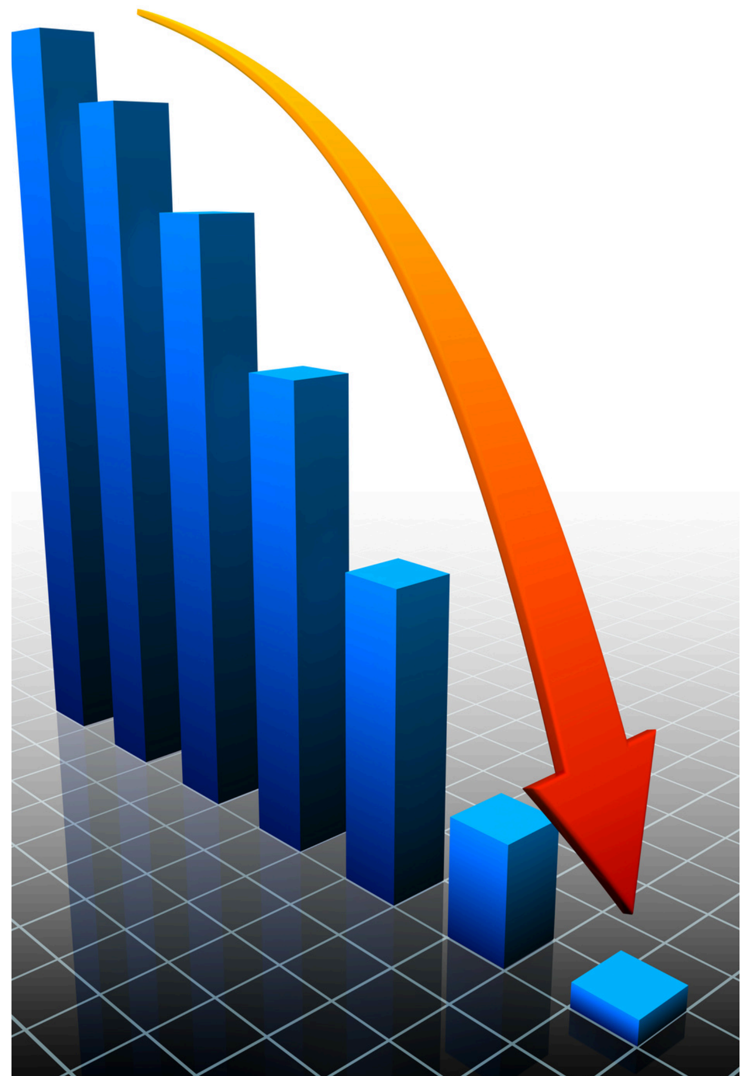
However, as announced at the time of the 2025 Autumn Budget, this relief is withdrawn from 6 April 2026. New legislation will prevent a deduction for work expenses where those expenses relate to the additional household costs incurred as a result of working from home.

The removal of the relief will increase the tax paid by affected employees by £62.40 for basic rate taxpayers, by £124.80 for higher rate taxpayers and by £140.40 for additional rate taxpayers.

Employees who are eligible for relief for 2025/26 can make a claim online or, where they complete a Self-Assessment tax return, in their return.

# Reduction in WDAs from April 2026

Where first year allowances, such as the Annual Investment Allowance or full expensing, are not claimed in respect of capital expenditure on plant and machinery, or not claimed in full, relief is instead given by way of writing down allowances (WDAs). The rate at which the allowance is given depends on whether the expenditure is main rate expenditure of special rate expenditure.



## Special rate pool

Expenditure is allocated to the special rate pool where it relates to integral features, items with a long life, solar panels, thermal insulation or cars with CO2 emissions above a certain threshold. For cars purchased on or after 6 April 2021, cars with CO2 emissions of 50g/km or above are added to the special rate pool. Special rate expenditure attracts WDAs at the rate of 6% per annum on a reducing balance basis. As for all capital allowances, there is no requirement to claim them or claim the full amount.

## Main rate pool

Expenditure not relieved by first year allowances on plant and machinery that was not allocated to the special rate pool is allocated to the main rate pool. The rate of main rate WDAs fell to 14% from 1 April 2026 for companies and from 6 April 2026 for individuals. Previously, the rate was 18%. The allowance is given on a reducing balance basis.

Where the accounting period spans the date on which the rate changed, a hybrid rate applies for that accounting period which is based on the proportion of the period falling before the rate change and the proportion falling on or after the rate change.

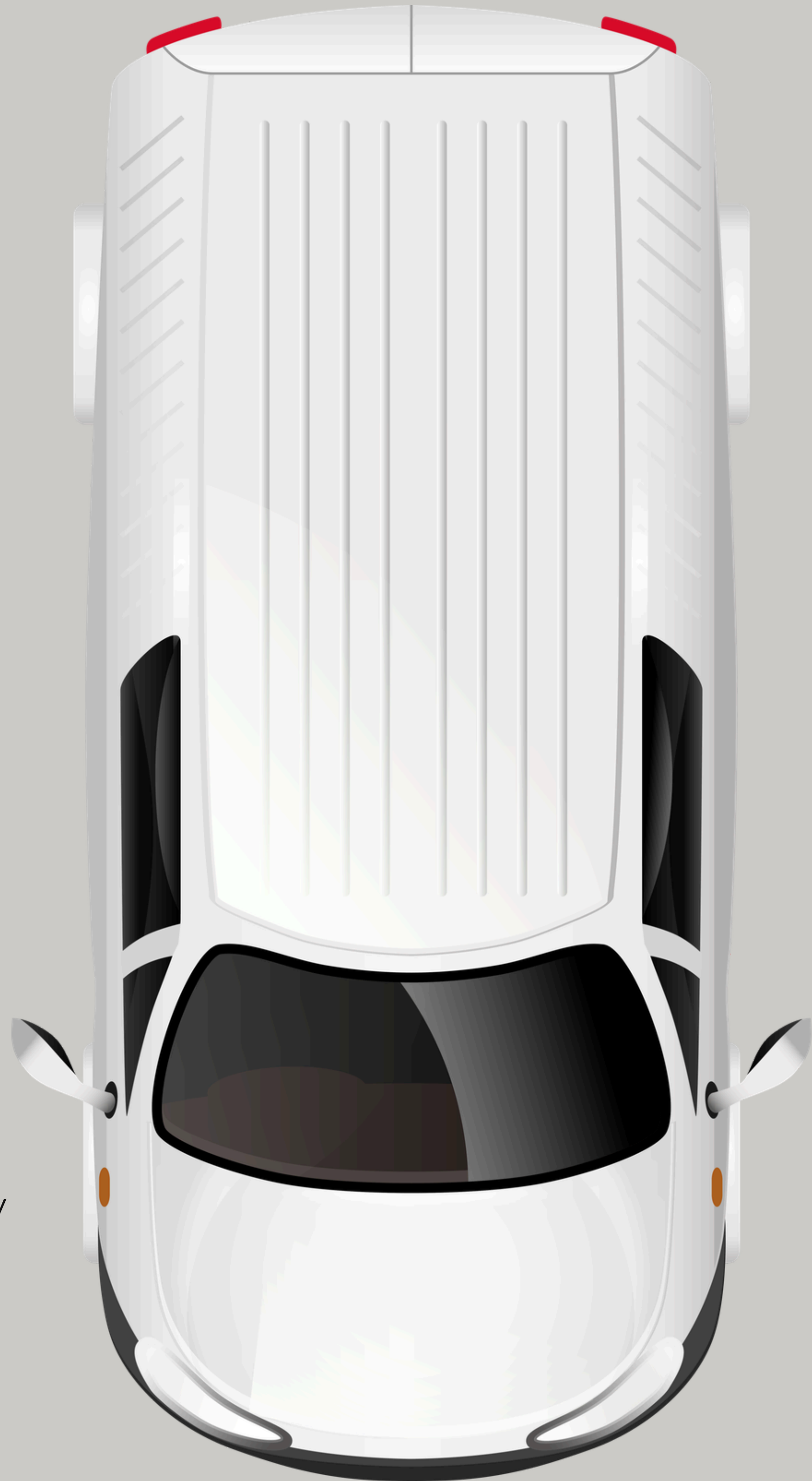
## Example

A Ltd prepares accounts to 30 June each year. At the start of the accounting period, the brought forward balance on the main rate pool was £150,000. During the year, the company purchases two new cars with CO2 emissions of 20g/km, costing £35,000 each. The expenditure is added to the main rate pool. The rate of main rate WDAs is 18% prior to 1 April 2026 and 14% on or after that date. As the year to 30 June 2026 spans the date on which the rate changed, it is necessary to calculate a hybrid rate for that period. In the year to 30 June 2026, 274 days fell before 1 April 2026 when the rate was 18% and 91 days fell on or after 1 April 2026 when the rate was 14%. The hybrid rate is therefore 17% ((274/365 x 18%) + (91/365 x 14%)). The company can claim main rate WDAs for the year to 30 June 2026 of £37,400 (17% (£150,000 + £35,000 + £35,000)).

# Taxation of company vans in 2026/27

Where an employee is provided with a company van that is available for private use, a tax charge may arise under the benefit in kind legislation. However, this will not always be the case.

Unlike company cars, where a van benefit charge does arise, it does not depend on CO2 emissions. Instead, it is a set amount.
If fuel is provided for private use in the van, a fuel benefit charge may also arise.



### Electric vans

The van benefit for a zero-emission van is nil, regardless of the level of private use. Consequently, allowing an employee to use an electric van for private use is a valuable tax-free benefit.

### Restricted private use

Where an employee is provided with a van other than one with zero emissions, it is still possible to avoid a benefit in kind charge if private use is restricted. The restricted private use condition comprises two tests, both of which must be met:
·the commuter use requirement; and
·the business travel requirement.

Both must be satisfied throughout the tax year (or part of the tax year for which the van is provided).
The commuter use requirement is met if:
·the terms on which the van is made available to the employee prohibit private use other than for the purposes of home to work travel (known as 'ordinary commuting') or travel between two places which for practical purposes is substantially home to work travel; and

·neither the employee nor a member of their family or household makes private use of the van other than for these purposes.

CONT ON PG 8

However, as long as any other private use is insignificant, the commuter use requirement is treated as met. HMRC cite the following as examples of insignificant private use:

- taking an old mattress or other rubbish to the tip once or twice a year;
- making a slight detour on the way to work to drop a child at school or to stop at a newsagent; or
- calling at the dentist on the way home from work.

By contrast, the use of the van to do a weekly supermarket shop, on a holiday or outside work for social activities is not regarded as insignificant and if the van is used in this way, the restricted private use exemption will not apply.
The second limb of the restricted private use condition is the business travel requirement, which is that the main reason that the van is made available to the employee is because they need to undertake business travel in the van as part of their job. Where the restricted private use condition is met, the benefit in kind charge is nil.

### Unrestricted private use

If the employee is able to use the van other than for ordinary commuting and the van is not an electric van, a tax charge arises under the benefit in kind legislation. For 2026/27, the taxable amount is £4,170 (up from £4,020 for 2025/26). Unrestricted private use of a company van (other than an electric van) will cost a basic rate taxpayer £834 in tax and a higher rate taxpayer £1,668 in tax in 2026/27.

### Pooled vans

No tax charge arises on a pooled van. This is a van that is available and actually used by more than one employee, no one employee uses the van to the exclusion of the others and any private use of the van is merely incidental. In addition, the van must not normally be kept overnight at or near an employee's home.

### Additional fuel charge

Where fuel is provided for unrestricted private travel in a van which is not an electric van, a separate fuel benefit charge arises. This is set at £798 for 2026/27 (up from £769 in 2025/26). A basic rate taxpayer will pay £159.60 in tax in 2026/27, and a higher rate taxpayer will pay £319.20 – this is likely to be less than cost of the fuel used for private use and can be a worthwhile benefit.

# Understanding your tax code

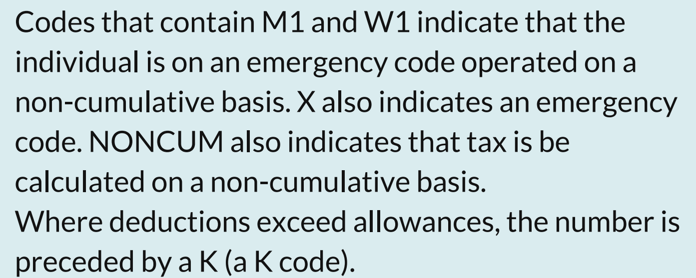
The tax code is fundamental to the operation of PAYE. It is made up of letters and numbers which take account of the allowances that you receive and also any deductions from those allowances, for example, to collect underpaid tax. If you have received a tax code for the 2026/27 tax year, it is important that you understand what it means and check that it is correct.

The number in the tax code tells the employer or pension provider how much tax-free pay you are entitled to for the tax year. The number is found by taking the personal allowances that the individual is entitled to for the tax year (if any). Deductions are made to collect unpaid tax, tax on untaxed income, such as interest received gross, tax on company benefits which have not been payrolled and the High Income Child Benefit Charge.

The final digit is removed to arrive at the number in the tax code. Where the code is a suffix code, a letter is added at the end. This may be L, M, T, M1, W1 or X. L indicates that the person is in receipt of the standard personal allowance. For 2026/27, where a person is entitled to the standard personal allowance of £12,570 and has no deductions in their code, their tax code will be 1257L.

Code M indicates that a person has received the marriage allowance from their spouse or civil partner, while code N indicates that a person has transferred 10% of their personal allowance to their spouse or civil partner.

A ‘T’ in the tax code indicates that the tax code includes other calculations to work out the personal allowances, for example, where adjusted net income exceeds £100,000 and the personal allowance is abated.



Codes that contain M1 and W1 indicate that the individual is on an emergency code operated on a non-cumulative basis. X also indicates an emergency code. NONCUM also indicates that tax is be calculated on a non-cumulative basis.
Where deductions exceed allowances, the number is preceded by a K (a K code).

There are also a number of special codes:

·0T – the personal allowance has been used up elsewhere or a person has started a new job, and the employer does not have the details needed to give the employee a correct tax code;

·BR – all income from the job is to be taxed at the basic rate;
·D0 – all income from the job is to be taxed at the higher rate; and
·D1 – all income from the job is to be taxed at the additional rate.

Where the taxpayer is a Welsh taxpayer, their code is preceded by a C. Scottish taxpayers have an S prefix, so that CD0 would be a Welsh taxpayer where all income from the job is taxed at the higher rate.

As there are more Scottish rates of tax, there are more codes – SD0, SD1, SD2 and SD3, indicating that all income is taxed, respectively, at the Scottish intermediate rate, the Scottish higher rate, the Scottish advanced rate and the Scottish top rate.

## Updating your code

If you think that your tax code is wrong, it may be because HMRC have missing or incorrect information. Taxpayers can update their details using the 'Check your income tax online' service on the Gov.uk website. If HMRC need to amend the code, they should do this within 15 days.

Taxpayers can also write to their tax office if they think that their code is wrong.

# TAX DIARY

## APRIL

1st April - For companies with June year ends Corporation Tax is due
6th April - First day of new tax year
7th April - Electronic Payments of VAT must have reached HMRC
7th April - Electronic Submission of VAT returns deadline
19th April - March's PAYE and Class 1 NIC Postal Payment must reach HMRC
19th April - Deadline for filing End of Year submissions with HMRC
22nd April - Deadline for electronic payments to be cleared in HMRC bank account for outstanding PAYE and Class 1 NIC
22nd April - March's PAYE and Class 1 NIC Electronic Payment must be cleared to HMRC
30th April - For companies with April year ends Corporation Tax Returns are due

## MAY

1 May 2026 - Due date for corporation tax due for the year ended 30 July 2025
19 May 2026 - PAYE and NIC deductions due for month ended 5 May 2026. (If you pay your tax electronically the due date is 22 May 2026).
19 May 2026 - Filing deadline for the CIS300 monthly return for the month ended 5 May 2026.
19 May 2026 - CIS tax deducted for the month ended 5 May 2026 is payable by today.
31 May 2026- Ensure all employees have been given their P60s for the 2025/26 tax year.

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