

TAXANGLES

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ACCOUNTANTS

A newsletter for proactive planning...



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Employment Allowance – Can you claim it?

The Employment Allowance is a very valuable allowance which allows eligible employers to reduce their secondary Class 1 National Insurance bill by up to £10,500 in 2026/27. The allowance is not given automatically and must be claimed.

Who can claim

Employers can claim the allowance if they are a business or a public body and they do less than half their work in the public sector. However, the allowance is not available to companies which only have one employee liable for secondary contributions who is also a director. This means that most personal companies where the same person is the director and the only employee do not benefit.

The Employment Allowance can also be claimed by charities and those who employ a care or support worker. The Employment Allowance is no longer restricted to employers whose Class 1 National Insurance liability in the previous year was £100,000 or less.

How it works

The allowance is set against the employer's secondary Class 1 National Insurance liability each month until it is used up. If the employer's secondary Class 1 National Insurance liability is less than £10,500 in 2026/27, their allowance is capped at their secondary Class 1 National Insurance liability for the year.

Example

A Ltd is a family company. Its secondary Class 1 National Insurance liability is £3,000 a month. It claims the Employment Allowance for 2026/27.

The allowance shelters their secondary Class 1 liability in months one, two and three, leaving £1,500 available to set against their secondary Class 1 liability for month four, reducing it to £1,500. As the allowance has now been used up, the company must pay their secondary Class 1 liability in full for months five to 12.

Claiming the allowance

A claim can be made at any time in the tax year.

However, the earlier the claim is made, the sooner the employer can start to benefit from it. The claim is made through the employer's payroll software (or by using HMRC's Basic PAYE Tools package if the software does not facilitate a claim) by clicking 'yes' in the Employment Allowance indicator box in the Employer Payment Summary (EPS). A claim can also be made for any of the previous four tax years in which the employer was eligible but did not claim.

Where an employer has more than one PAYE scheme, they are only entitled to one Employment Allowance rather than one per PAYE scheme. If a claim is made late and the Employment Allowance is not used against the employer's secondary Class 1 National Insurance liability for the year, the employer can ask HMRC to set any unclaimed allowance against any tax or National Insurance that they owe, including VAT and corporation tax. If they do not owe anything, they can ask HMRC for a refund.

Using your ISA allowance in 2026/27

Individual Savings Accounts (ISAs) are tax-free savings accounts.

There are four different types of ISAs:

- cash ISAs;
- stocks and shares ISAs;
- innovative finance ISAs; and
- lifetime ISAs.

Individuals must be at least 18 to invest in an ISA.

Cash ISAs may be with a bank or building society or with National Savings and Investments. Stocks and shares ISAs can include shares in companies, unit trusts and investment funds, corporate bonds, government bonds and long-term asset funds.

Lifetime ISAs can include cash and stocks and shares. They can only be used to save for a deposit for a first home or for retirement.

Innovative finance ISAs can hold peer-to-peer loans, crowdfunding debentures, funds where the notice or redemption period means that they cannot be held in a stocks and shares ISA or crypto-asset exchange traded notes. A separate ISA, the junior ISA, allows a parent or a guardian with parental responsibility to save for a child who is under the age of 18 and living in the UK. There is no tax to pay on interest on a cash ISA or on income and capital gains from investments in a stocks and shares ISA.

ISA allowance

For adults, the ISA allowance is £20,000 for 2026/27. This is the total amount that can be invested in ISAs of any type. However, the maximum that can be deposited in a lifetime ISA is capped at £4,000 a year and an individual can only have one lifetime ISA.

Example

John wishes to invest £20,000 in ISAs in 2026/27. He is using a lifetime ISA to save for retirement and can invest £4,000 of his allowance in his lifetime ISA. He also invests £10,000 in a cash ISA and £6,000 in a stocks and shares ISA.

The savings limit for Junior ISAs is set at £9,000 for 2026/27.

Changes ahead

Although the ISA limit will remain at £20,000 for 2027/28, individuals under the age of 65 will only be able to invest a maximum of £12,000 in a cash ISA. To use their full allowance, individuals under 65 will need to make non-cash investments of at least £8,000 in other types of ISA (stocks and shares, lifetime or innovative finance). The £12,000 cap will not apply to individuals aged 65 and over who will continue to be able to invest their full allowance in a cash ISA if they so wish.

Individuals under the age of 65 who wish to make the most of the opportunity to invest in cash ISAs may wish to consider investing the full £20,000 limit in a cash ISA in 2026/27 while they still can.



Benefits of an alphabet share structure

Where a business is operated through a limited company, profits need to be extracted if they are to be used personally.

Where the personal allowance remains available, it is generally beneficial to pay a salary equal to the personal allowance and to extract any further profits needed outside the company in the form of dividends.

In a family company, there may be a number of shareholders. Paying dividends is not as straightforward as paying a salary or a bonus as there are company law rules which must be adhered to.

The first point to note is that dividends are paid from retained profits. These are profits on which corporation tax has already been paid, and which have yet to be distributed. A company can only pay a dividend if it has sufficient retained profits from which to pay it.

The second point to note is that where there is more than one shareholder for a class of share, dividends must be paid in proportion to the shareholdings, which can be very limiting and may not give a tax-efficient result. This is where an alphabet share structure comes in.

Under an alphabet share structure, each shareholder has their own class of share, for example, A ordinary shares, B ordinary shares, etc.

This allows different dividends to be paid for each class of share, making it possible to tailor the dividends to the shareholder's personal circumstances.



For example, a company may tailor dividends to mop up any unused dividend allowances and basic rate bands.

Example

Albert and Anna are shareholders in A Ltd. They each own 50% of the ordinary share capital. The company has profits of £50,000 it wishes to distribute.

Neither Anna nor Albert have used their dividend allowance. Albert has no other income in 2026/27, whereas Anna has income of £200,000 from her property portfolio.

As Anna and Albert each own 50% of the shares, each will receive a dividend of £25,000. Albert can set his dividend allowance and personal allowance against his dividend so £13,070 is tax-free.

The remaining £11,930 is taxed at 10.75% – a tax bill of £1,282.47. Anna will also receive a dividend of £25,000, of which £500 is sheltered by her dividend allowance. The remaining £24,500 is taxed at 39.35% – a tax bill of £9,640.75. Their combined tax bill is £10,923.22.

If instead they had adopted an alphabet share structure whereby Albert owned one ordinary A share and Anna owned one ordinary B share, they could have tailored the dividends to their personal circumstances.

Instead of each receiving a dividend of £25,000, a dividend of £49,500 could be declared for the A share and a dividend of £500 for the B share.

Albert would receive a dividend of £49,500 on which tax of £3,916.25 would be payable, while Anna would receive a dividend of £500 which would be sheltered by her dividend allowance. Their combined tax bill is over £7,000 lower where an alphabet share structure is used.

Benefits of filing your 2025/26 tax return early

The 2025/26 Self-Assessment tax return must be filed online by midnight on 31 January 2027. However, you do not have to wait until the deadline is approaching to file your return and there can be advantages in filing early. Before filing your return, it is important to check that you have all the information you need. If you have employment or pension income to include on your return, you may need to wait until you have your P60. You should have that by 31 May 2026. Likewise, you may also need details of payrolled benefits and those reported on your P11D. Here are seven reasons why filing your tax return early may be a good idea:

1. You will get it out of the way and avoid the stress of having to file it at the last minute.
2. If you have trading and/or property income, you will know whether you will need to start complying with MTD for ITSA from 6 April 2027 if you are not already in it. This will be the case if your combined trading and property income before deduction of expenses is £30,000 or more in 2025/26. The earlier you know, the longer you have to prepare.
3. You will know what tax you have to pay in advance and can ensure that you have the funds available to meet the tax bills, rather than being caught out at the last minute.
4. If you are owed a tax refund, you can claim the money back sooner.
5. If you make payments on account, once you know your 2025/26 tax liability you can check whether you need to reduce them.
6. If you file your return before 30 December 2026 and owe £3,000 or less, you can opt to have the tax that you owe collected through your 2027/28 tax code. This is equivalent to an interest-free instalment option.
7. If you are looking to get a mortgage and need proof of your income, filing your tax return will provide this.



Making quarterly returns for MTD for ITSA

Making Tax Digital for Income Tax Self-Assessment (MTD for ITSA) is now a reality for individuals who had combined trading and property income of at least £50,000 in 2024/25.

They will now need to keep their records digitally and file their first quarterly return by 7 August 2026.

The quarterly updates are sent to HMRC digitally using software that is compatible with MTD for ITSA. Quarterly updates must be submitted for each source of self-employment income and each source of property income.

The quarterly updates will contain:

- the digital records for self-employment and property income and expenses for the previous three months; and
 - the digital records which have already been created since 6 April 2026 and any corrections to those records.
- After sending each update, the individual will be able to see an estimate of their tax bill.

Details of the categories under which the information provided in the quarterly update should be recorded can be found online at:

www.gov.uk/government/publications/update-notice-for-making-tax-digital-for-income-tax/making-tax-digital-for-income-tax-update-notice.

If the individual has other income, such as income from employment or a pension or investment income, they do not need to report this in the quarterly update. Instead, other income is reported in the final declaration. This is the point at which reliefs are claimed too.

Update periods

Individuals have a choice whether to prepare quarterly updates using the standard periods, which correspond with tax months, or the calendar update periods.

The following table shows the periods and quarterly update deadlines.

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Standard update periods

Period	Quarterly Update Deadline
6th April - 5 th July	7 th August
6th April - 5 th October	7 th November
6th April - 5 th January	7 th February
6th April - 5 th April	7 th May

Calendar update periods

Period	Quarterly Update Deadline
1 April to 30 June	7 th August
1 April to to 30 September	7 th November
1 April to to 31st December	7 th February
1 April to 31 March	7 th May

Taxpayers can choose to send updates more frequently if they wish, such as monthly.

Missed deadlines

Under the penalty regime that applies under MTD, where a deadline is missed, a penalty point is issued. Once the penalties reach the penalty threshold, which for quarterly return is four points, a £200 penalty is levied. However, HMRC have stated that for taxpayers who are mandated for MTD for ITSA from 6 April 2026, they will not issue penalty points for late quarterly updates for the first 12 months.



TAX DIARY

MAY

- 1 May 2026 – Due date for corporation tax due for the year ended 31 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.

JUNE

- 1 June 2026 – Due date for corporation tax due for the year ended 31 August 2025.
- 19 June 2026 – PAYE and NIC deductions due for month ended 5 June 2026. (If you pay your tax electronically, the due date is 22 June 2026).
- 19 June 2026 – Filing deadline for the CIS300 monthly return for the month ended 5 June 2026.
- 19 June 2026 – CIS tax deducted for the month ended 5 June 2026 is payable by today.

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