

TAXANGLES

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A newsletter for proactive planning...



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Escaping the HICBC

The High Income Child Benefit Charge (HICBC) is a tax which claws back child benefit where the recipient or their partner has adjusted net income of £60,000 or more in the tax year. The charge is equal to 1% of the child benefit for the year for every £200 by which adjusted net income exceeds £60,000. Once adjusted net income reaches £80,000, the charge is equal to the child benefit for the year.

Where this is the case, rather than receiving the child benefit only to pay it back later, the recipient may elect to not receive the child benefit.

However, it is important to register for child benefit to secure the National Insurance credit it provides, particularly if the individual will not otherwise secure a qualifying year for state pension purposes.

Where both partners have adjusted net income in excess of £60,000, the charge is levied on the one with the highest income. It does not matter who receives the child benefit – a person may be liable for the charge when the benefit is paid to their partner.

For 2026/27, child benefit is set at £27.05 per week for the first child and at £17.90 per week for each additional child.

Example

Jade and Liam have two children. For 2026/27, they receive child benefit of £44.95 per week (£2,337.40 a year). Jade is a stay-at-home parent. Liam has adjusted net income of £70,000 for 2026/27. Jade claims child benefit.

As Liam's income exceeds the £60,000 threshold, he is liable for the HICBC. His income exceeds the threshold by £10,000. The charge is 50% of the child benefit paid to Jade ($1\% \times (£10,000/£200)$), i.e. £1,168.70.

Adjusted net income

The measure of income used to determine whether the HICBC applies is adjusted net income. This is taxable income before personal allowances, less trading losses, pension contributions and Gift Aid donations.

The charge only applies if the recipient or their partner has adjusted net income of £60,000 or more.

Keeping the child benefit

There are various steps that can be taken to eliminate or reduce the charge.

Option 1: equalise income

The charge is triggered by an individual's income, rather than household income. A household where both parents have adjusted net income of £60,000 – household income of £120,000 – will be able to keep their child benefit in full. By contrast, a household where one parent earns £80,000 and the other does not work will pay back all their child benefit in the form of the HICBC.

Consideration could be given to reducing hours or to both parents working part-time in order to prevent the HICBC applying.

Option 2: make pension contributions

Pension contributions are deducted in working out adjusted net income. Therefore, an individual can consider making pension contributions in order to reduce or eliminate the HICBC. The individual will benefit later from the pension contributions.

Example

Lucy and Olly have four children. They receive £4,199 in child benefit in 2026/27. Lucy has adjusted net income of £50,000 and Olly has adjusted net income of £75,000. The HICBC would claw back £3,149.25 of their child benefit. Olly decides to make a pension contribution of £15,000. This reduces his income to £60,000 and removes him from the scope of the HICBC.

Option 3: make Gift Aid contributions

Charitable donations made under Gift Aid are deducted in calculating adjusted net income. Consequently, it is possible to reduce or eliminate the HICBC by making Gift Aid donations to reduce adjusted net income.



Writing off a director's loan

In a personal or family company, there are often transactions between the company and the director(s). For example, the company may meet personal expenses on the director's behalf, or the director may loan money to the company to help cash flow.

It is important to keep track of transactions between the director and the company. This is done by means of a director's loan account. Where the director's loan account is overdrawn there may be tax consequences for the director and the company.

If the outstanding loan balance exceeds £10,000 at any point in the tax year, the director may face a tax charge under the benefit in kind provisions. The company must also pay Class 1A National Insurance contributions at 15% on the taxable amount. If the account is overdrawn at the year end and remains so at the corporation tax due date nine months and one day after the year end, the company must pay section 455 tax on the outstanding loan balance. The rate of section 455 tax is aligned with the dividend upper rate – 35.75% for 2026/27.

Writing off the loan

At first sight, writing off the loan may seem a simple solution to avoiding the section 455 tax. However, this too has tax consequences.

Where a director's loan is waived, released or written off, the director is treated as if they have received a distribution equal to the amount written off. The director is taxed at the dividend tax rates. Where the write-off takes place on or after 6 April 2026, the deemed distribution will be taxed at 10.75% where it



falls within the basic rate band, at 35.75% where it falls within the higher rate band and at 39.35% where it falls in the additional rate band. The director must declare the loan write-off on their Self-Assessment tax return.

Where the director is also an employee, a tax charge could also arise in respect of the written off loan under the employment income rules. However, the distribution rules take precedence, so the director does not suffer a double tax charge.

From the company's perspective, as the write-off is treated as a distribution, the amount written off is not deductible in computing the company's profits chargeable to corporation tax. If the loan was one in respect of which the company had previously paid section 455 tax, that tax would become repayable nine months and one day after the end of the tax period in which the loan was written off. The repayment must be claimed.

National Insurance

There is also a National Insurance cost for both the director and the company in writing off a director's loan. Although for income tax purposes, the loan write-off is treated as a distribution, for National Insurance purposes, it is treated as a payment of earnings on which Class 1 National Insurance contributions are payable by both the director and the company (as the employer). It may be possible to argue that the write-off is shareholders' funds rather than earnings and is not related to the director's work for the company. If HMRC accept this to be the case, there will be no National Insurance to pay.

A better solution

If the director is taxed at the dividend upper or additional rates on the deemed distribution, it may be preferable to leave the loan outstanding and pay the section 455 tax. Unlike a loan write-off, there will be no National Insurance to pay. If the director is able to pay off the loan at a later date, the section 455 tax will be repaid.

Relief for homeworking expenses

Where an employee works at home, they may incur additional household expenses as a result, such as additional heating and lighting costs, the cost of business phone calls on a home phone, additional insurance costs and additional cleaning costs.

Reimbursed by the employer

The tax legislation contains a dedicated exemption which allows the employer to reimburse these costs without the employee being taxed on the amount reimbursed.

For the exemption to apply, the employee must be working at home under homeworking arrangements with the employer, rather than out of choice. Further, the costs must be reasonable and must be incurred in carrying out the duties of the employment; the exemption does not apply if the employer meets costs which would be the same regardless of whether the employee worked at home or not, such as mortgage interest or rent.

To make life easier, rather than reimbursing actual costs, which can be tricky and time-consuming to work out, the employer can make a tax-free payment of £6 per week (£26 per month) to cover the additional costs of working from home. The amount is the same whether the employee works at home one day a week or five days a week.

Costs met by the employee

Prior to 6 April 2026, the employee was able to claim a fixed deduction of £6 per week (£26 per month) to cover the additional costs of working at home under a homeworking arrangement. Employees could also claim a deduction based on the actual additional costs of working from home. However, from 6 April 2026, this all changed. From that date, a deduction for additional household expenses is expressly prohibited regardless of whether they are wholly, exclusively and necessarily incurred in the performance of the duties.



Taxation of company vans in 2026/27

HMRC publish mileage rates for petrol, LPG and diesel and electric cars. The rates are known as the advisory fuel rates and are updated quarterly with effect from 1 March, 1 June, 1 September and 1 December. The rates are fuel-only rates, which can be used either to reimburse employees for fuel used for business travel in a company car or where an employee needs to repay the cost of fuel used for private journeys in a company car. For petrol, LPG and diesel cars, the rate depends on the engine size, whereas for electric cars the rate depends on whether the car was charged at a home charger or a public charger.

The rates applying from 1 June 2026 are as follows:

Engine size	Petrol rate	Rate per mile
1400 cc or less	14 pence	11 pence
1401-2000cc	17 pence	13 pence
Over 2000cc	26 pence	21 pence

Engine size	Diesel rate per mile
1600 cc or less	15 pence
1601-2000cc	17 pence
Over 2000cc	23 pence

Charging location	Electric
Home charger	7 pence
Public charger	15 pence



Reimbursing business travel

The rates can be used to reimburse an employee for business travel in a company car without a tax charge arising on the reimbursement. There will be no Class 1A National Insurance for the employer to pay either.

The employer does not have to use the advisory rates and can set their own rates instead. However, if the amount paid exceeds the advisory rates and the employer cannot show that the actual costs are higher than the advisory rates (and equal to the amount paid), the excess over the amount due at the advisory rates is taxable and must be included in earnings for Class 1 National Insurance purposes.

The rates should not be used to reimburse business travel in an employee's own car. Instead, Approved Mileage Allowance Payments rates should be used. These are higher as they include an element for the costs of wear and tear, servicing and insurance.

Repaying private travel

If an employee has a company car other than an electric car, a fuel benefit tax charge will arise if the employer meets the cost of private travel.

This is an all or nothing charge – the charge will apply if the employer meets the cost of any private mileage in the year.

The charge can be significant, as the amount charged to tax is calculated by applying the appropriate percentage used to work out the company car benefit, multiplied by the year's multiplier, which for 2026/27 is £29,200.

To avoid the charge, the employee must make good the cost of all fuel for private journeys. The amount which the employee will need to reimburse can be calculated using the advisory fuel rates.

To eliminate the charge, the cost of private fuel must be repaid no later than 31 May after the end of the tax year if the benefit is payrolled and no later than 6 July after the end of the tax year if it is returned on the P11D.

The advisory rates do not need to be used if it can be shown that the employee has met the full cost of fuel for private travel by reimbursing at a lower rate.

There is no fuel benefit charge if the employer meets the cost of electricity for private journeys in an electric car, so reimbursement is not needed here.



Reclaiming the cost of statutory payments

Employers must make statutory payments to employees who meet the eligibility criteria. This includes statutory maternity pay (SMP), statutory paternity pay (SPP), statutory adoption pay (SAP), statutory shared parental pay (SSPP), statutory parental bereavement pay (SPBP), and statutory neonatal care pay (SNCP). From 6 April 2026 onwards, all employees are entitled to statutory sick pay (SSP) from the first day of their sickness absence. For all statutory payments other than SSP, employers can claim some or all of the cost back from HMRC. The amount which can be claimed depends on the size of the employer.

From 6 April 2026 onwards, employers who qualify for Small Employers' Relief can reclaim 109% of the cost of the statutory payments (other than SSP) that they make. For 2025/26, the amount was 108.5%. An employer is small if they paid £45,000 or less in Class 1 National Insurance (before deducting the Employment Allowance) in the last tax year before:

- the 'qualifying week', i.e. the 15th week before the due date;
- the 'matching week' when an employee was told by the adoption agency they had been matched with a child;
- the date of the official notification where a child is adopted from another country;
- the 'qualifying week' before the death of a child; or
- the 'relevant week' before the child started to receive neonatal care unless the employee is entitled to SMP, SPP or SAP.

For these purposes a week runs from Sunday to Saturday. Employers cannot recover the cost of SSP – they must meet it in full.

Making a claim

The employer should make their claim through their payroll software. The claim should be made in the Employer Payments Summary. Effect is given to the



claim by deducting it from the amount of PAYE and National Insurance that the employer has to pay to HMRC. Where the claim cannot be satisfied by offset against the current year's PAYE and National Insurance liability, the employer can write to HMRC to ask for a repayment. The claim cannot be made until the start of the next tax year. The letter should be sent to:

National Insurance Contributions and Employers Office
HM Revenue and Customs
BX9 1BX.

Financial help

Employers who are struggling financially and cannot afford to make statutory payments to employees can apply in advance for help with paying statutory payments. An application for advance funding to pay SMP, SPP, SAP and SHPP can be made online up to four weeks before the employer needs to make the first payment. Applications for advance funding to pay SPBP or SNCP can also be made online through a separate system.

Employers must still send an EPS for each period that they reclaim statutory payments, even if they receive advanced funding. The advance funding will be reduced by any amount owing to HMRC.

TAX DIARY

JUNE

- 1 June: Corporation Tax due for companies with an August 2025 year-end.
- 7 June: VAT electronic submission and electronic payment deadline (for quarter ending 30 April).
- 19 June: PAYE and Class 1 NIC deductions for the tax month ending 5 June must reach HM Revenue & Customs (HMRC) if paying by post.
- 22 June: PAYE and Class 1 NIC electronic payment deadline for the month ending 5 June (cleared funds).
- 30 June: Corporation Tax Return due for companies with a June 2025 year-end. [[1](#), [2](#), [3](#)]

JULY

- 1 July 2026 – Due date for corporation tax due for the year ended 30 September 2025.
- 6 July 2026 – Complete and submit forms P11D return of benefits and expenses and P11D(b) return of Class 1A NICs.
- 19 July 2026 – Pay Class 1A NICs (by the 22 July 2026 if paid electronically).
- 19 July 2026 – PAYE and NIC deductions due for month ended 5 July 2026. (If you pay your tax electronically, the due date is 22 July 2026).
- 19 July 2026 – Filing deadline for the CIS300 monthly return for the month ended 5 July 2026.
- 19 July 2026 – CIS tax deducted for the month ended 5 July 2026 is payable by today.

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