

TAXANGLES

from



COMPASS

ACCOUNTANTS

A newsletter for proactive planning...



In this edition...

- Do I need to pay tax on income from my side hustle?
- Incorporation relief – Remember to claim it
- Settling your 2025/26 PSA
- Corporation tax penalties
- More timely payment of ITSA
- Tax Diary

September 2026 Issue

www.compassaccountants.co.uk



Do I need to pay tax on income from my side hustle?

Many people are taking on a side hustle to make ends meet. This can take various forms, such as selling items online, providing services or creating content.

You may need to tell HMRC about your income if your trading income (from all sources including any other self-employments) is more than £1,000. The £1,000 limit is for all trading income – not for each source. You may also need to sell an item and make a capital gain. Normal tax rules apply – there are no special rules for side hustles.

Tax will be payable if your total taxable income from all sources exceeds your personal allowance (set at £12,570 for 2026/27, abating once income reaches £100,000). Here we look at some popular side hustles and see whether you need to tell HMRC about them.

Selling clothes on Vinted

Where a person simply sells their old clothes on Vinted for less than they paid for them, they do not need to tell HMRC about the income. However, if

they buy second-hand clothes with a view to selling them for a profit, they will need to tell HMRC once their total trading income from all sources exceeds £1,000. Remember, this is income before deducting expenses. If the income is less than £1,000, it is covered by the trading allowance, and there is no need to tell HMRC.

Tax will be payable on the profit. If expenses are less than £1,000, the trading allowance can be deducted instead.

Providing services

A person may earn extra money by providing services, such as tutoring or gardening services. Here, HMRC must be told once the income from providing the services reaches £1,000. Tax is payable on the profit after deducting expenses or the £1,000 trading allowance if this is more beneficial.

Selling household items

Normally, it will not be necessary to tell HMRC if you make money from selling unwanted furniture and household items. However, if an item such as a

painting or an antique is sold for more than £6,000, you may need to tell HMRC and pay capital gains tax if you have made a gain. Special rules apply which cap the chargeable gain.

These rules do not apply to private cars and assets with an expected lifespan of less than 50 years.

Content creation

Content creators may earn money from reviewing items online. They may also be gifted items to promote a brand. When working out the total income from content creation, it is not enough to only include cash payments – the value of gifted items must also be taken into account.

Where the total income (before deducting expenses) exceeds £1,000, HMRC must be told. The profit is taxable. When calculating the profit, the £1,000 trading allowance can be deducted instead of actual expenses where this gives a better result.

More than one side hustle

If you have more than one side hustle, you will need to add together the income from each source to see if it exceeds the £1,000 trading allowance. Remember to include income from any self-employments too. Remember, digital platforms provide income details to HMRC.

Fill in a tax return

If you need to tell HMRC about your side hustle, you will need to register for Self-Assessment if you are not already registered and file the return online by midnight on 31 January after the end of the tax year to which it relates.



Incorporation relief – Remember to claim it

When a sole trader transfers their business to a limited company, a chargeable gain may arise on the assets transferred. As the connected person rules apply, the gain is calculated by reference to the market value at the date of transfer rather than the sale proceeds, if any. However, where rollover relief on the transfer of a business – generally referred to as ‘incorporation relief’ – is claimed, some or all of the gain can be deferred, reducing or eliminating the immediate capital gains tax bill.

Incorporation relief is a capital gains tax rollover relief that can be claimed where a business is transferred to a limited company wholly or partly in return for shares.

Full relief is available where the consideration is wholly in shares. Here, claiming incorporation relief allows the full gain to be rolled over, reducing the base cost of the shares.

Example 1

Peter incorporates his business, transferring all the assets from his sole trader business to the new limited company, P Ltd, in return for 1,000 ordinary shares in the company. On incorporation, the business was worth £50,000 (£50 per share). In the absence of incorporation relief, a capital gain of £30,000 will be chargeable immediately.

Peter claims incorporation relief. The gain is rolled over, reducing the base cost of the shares to £20,000 (£20 per share).

If the consideration is received partly in shares in the new company and partly in cash, incorporation relief is only available for so much of the gain as is attributable to the shares. The part of the gain which is attributable to the cash is immediately chargeable.

Example 2

The facts are as in example 1, except that he receives 1,000 ordinary shares in P Ltd and £10,000 in cash. On incorporation, the company was worth £50,000. In the absence of incorporation relief, a capital gain of £30,000 will be chargeable immediately.

Peter claims incorporation relief. In this instance, only the

gain attributable to the shares of £24,000 ($£30,000 \times £40,000/£50,000$) can be rolled over, reducing the base cost of the shares to £16,000 (i.e. from £40 per share to £16 per share). The remaining gain of £6,000 attributable to the cash is immediately chargeable.

Claiming the relief

A claim to incorporation relief will not always be beneficial – if the transfer of the business gives rise to a capital loss, which may be the case if the assets have depreciated since they were acquired, or if any gain is sheltered by losses and/or the annual exempt amount, there is no point in claiming the relief. However, where incorporation relief is worthwhile, it must now be claimed; prior to 6 April 2026, it was given automatically. Where the transfer of the business takes place on or after 6 April 2026, the relief must be claimed on or before the first anniversary of the 31 January following the end of the tax year in which the transfer of the business took place. This can be done in the Self-Assessment tax return.



Settling your 2025/26 PSA

If you have a PAYE Settlement Agreement (PSA) in place for 2025/26, you will need to pay the tax and Class 1B National Insurance due under the agreement by 22 October 2026 if you make your payment electronically. However, if you pay by cheque, your cheque must reach HMRC no later than 19 October 2026.

Before you can make the payment, you will need to work out what you owe and tell HMRC. If you have not already done this, you should do this without delay. This can be done online using form PSA1 (see www.gov.uk/guidance/tell-hmrc-the-value-of-items-in-your-payee-settlement-agreement).

As tax paid on an employee's behalf is itself a taxable benefit, the tax on the benefits included in the PSA must be grossed up. To work out the tax due, you will need to know the marginal rate of tax for employees receiving the benefit and the value of the benefits provided to employees in each tax band.

Example

A Ltd settles the tax due on the annual Christmas gala dinner by means of a PSA. The dinner cost £250 per head and was attended by 20 employees paying tax at the basic rate and by eight employees paying tax at the higher rate. The grossed-up tax is calculated as follows:

Value of benefits provided to basic rate taxpayers @ 20% (£250 x 20) @ 20%	£1,000
Grossed up tax £1,000 x 100/80	£1,250
Value of benefits provided to higher rate taxpayers @ 40% (£250 x 8) @ 40%	£800
Grossed up tax £800 x 100/60	£1,333.33
Tax due under the PSA	£2,583.33

Class 1B National Insurance is payable on the taxable value of the benefits and on the tax due under the PSA. For 2025/26, the Class 1B rate is 15%.

In this example, the Class 1B liability is £1,437.50 (15% ((£250 x 28) + £2,583.33)).

Making the payment

Once the calculation has been submitted, you will receive a payment reference and a payslip.

Payment can be made online at www.gov.uk/pay-psa by approving a payment through your bank account, by debit card or by corporate credit card. You will need the payment reference.

Payment can also be made through online or telephone banking or by direct debit.



Corporation tax penalties

A company tax return must be filed no later than 12 months after the end of the accounting period to which it relates. However, the corporation tax for that period is due earlier and must be paid by nine months and one day after the end of the accounting period. So, if a company's accounting period is the year to 31 March 2026, they will need to file their company tax return by 31 March 2027. However, the corporation tax for the period is due by 1 January 2027.

As the corporation tax due date is before the company tax return filing date, most companies will file the return on time as it will make sense to do the return before the corporation tax is paid. However, there are consequences if the return is filed late or the tax is paid late.

Late filing penalties

Penalties are charged if the company tax return is as little as one day late. Further penalties are charged if the return remains outstanding three months, six months and 12 months after the due date.

The penalties charged are shown in the table below.

Period after deadline	Penalty
1 day	£200
3 months	A further £200
6 months	A further penalty of 10% of the amount of tax which HMRC estimate to be outstanding
12 months	A further penalty of 10% of any unpaid tax

Persistent late offenders are fined more heavily – if the company tax return is late three times in a row, the £200 penalties are each increased to £1,000.

Taxpayers with a reasonable excuse (in HMRC's eyes) for filing their return late can appeal against any late filing penalties charged. However, they must have filed the return before appealing.

Where the company tax return has not been filed six months after the due date, HMRC will decide how much corporation tax the company must pay. This is known as a tax determination. A company cannot appeal against this. However, once they have filed their company tax return and paid the tax due, HMRC will recalculate the penalties and interest based on the actual liability.

Late paid corporation tax

There are no penalties for paying corporation tax late. However, interest is charged at a rate of 4% higher than the Bank of England base rate from the due date until the date on which payment is made.



More timely payment of ITSA

Over the summer, HMRC consulted on proposals for the timelier payment of income tax due under Self-Assessment (ITSA). Currently, taxpayers within Self-Assessment must pay their income tax and any Class 4 National Insurance by midnight on 31 January after the end of the tax year to which it relates. This means that income tax and Class 4 National Insurance for 2025/26 must be paid in full by midnight on 31 January 2027.

If the tax and Class 4 National Insurance bill for the previous tax year was £1,000 or more, unless 80% of the amount due for the year was collected at source, such as under PAYE, the taxpayer must make payments on account of the current year's liability on 31 January in the tax year and on 31 July after the end of the tax year. Each payment on account is 50% of the previous year's tax and Class 4 National Insurance liability. Any balance due must be paid by 31 January after the end of the tax year.

Taxpayers with PAYE income

Taxpayers who are within Self-Assessment and who have a PAYE source of income will make in-year payments on account of their Self-Assessment tax bill through PAYE from 6 April 2029 (2029/30 tax year).

Other taxpayers

Where a taxpayer has no or insufficient PAYE income for tax and Class 4 NIC that they owe through Self-Assessment to be collected in year through PAYE, HMRC are exploring increasing the frequency of payments on account and advancing them so that all payments on account are made in the same tax year as the income to which they relate. Under this proposal, the payments would be based on the taxpayer's forecasted liability which in turn would be based on past returns. Once the taxpayer had reported their liability for the year, the amounts paid and owed would be reconciled, with the taxpayer making a balancing payment or receiving a refund as necessary.



Transition year

Moving to in-year payment will mean that in the transition year taxpayers may be paying tax for more than one tax year. Although the actual tax paid will not change, moving the payment dates in year may cause cashflow difficulties for taxpayers. HMRC are considering options to support taxpayers during the transition, such as spreading payments for previous years over a longer time frame.

TAX DIARY

SEPTEMBER

- 1 September 2026 – Due date for Corporation Tax for the year ended 30 November 2025.
- 19 September 2026 – PAYE and NIC deductions due for the month ended 5 September 2026. However, if you pay electronically, the due date becomes 22 September 2026.
- 19 September 2026 – Filing deadline for the CIS300 monthly return for the month ended 5 September 2026.
- 19 September 2026 – CIS tax deducted for the month ended 5 September 2026 becomes payable today.

OCTOBER

- 1 October 2026 – Due date for Corporation Tax due for the year ended 31 December 2025
- 19 October 2026 – PAYE and NIC deductions due for month ended 5 October 2026. (If you pay your tax electronically the due date is 22 October 2026)
- 19 October 2026 – Filing deadline for the CIS300 monthly return for the month ended 5 October 2026.
- 19 October 2026 – CIS tax deducted for the month ended 5 October 2026 is payable by today.
- 31 October 2026 – Latest date you can file a paper version of your 2025-26 self-assessment tax return.

Compass Accountants, Venture House, The Tanneries, East Street, Titchfield Hampshire. PO14 4AR



COMPASS
ACCOUNTANTS