Benefits in kind

Employees are required to pay income tax on certain non-cash benefits. For example, the provision of a company car constitutes a taxable 'benefit in kind'. In 2025/26, employers will also pay Class 1A NIC at 15% on the value of benefits (13.8% in 2024/25).

The benefit value of a company car is calculated as a percentage of its list price when it was first registered. The percentage used is determined by the car's carbon dioxide emissions or, if it is electric, its electric range. The percentages used are set to increase steadily until 5 April 2028, meaning employees with company cars can expect their percentage to increase by 1% in 2025/26 and consequently will pay more tax on their company car. More substantial increases will affect the percentages used from 2028/29 onwards.

The figures used to calculate benefits-in-kind on employer-provided vans, van fuel (for private journeys in company vans), and car fuel (for private journeys in company cars) increase in line with inflation for 2025/26:

	2025/26	**2024/25**
Van benefit	£4,020	£3,960
Van fuel benefit	£769	£757
Car fuel benefit multiplier	£28,200	£27,800

Uncertainty surrounding the tax treatment of double cab pick-up vehicles with a payload of 1 tonne or more has been addressed: such vehicles that are not predominantly suitable for carrying goods are to be treated as cars for benefit in kind purposes. However, vehicles that were acquired or ordered before 6 April 2025 can be treated as vans until the earlier of disposal, lease expiry, or 5 April 2029.

Tip – If you are considering buying a double cab pick-up vehicle with a payload of 1 tonne or more, acquiring or ordering it before 6 April 2025 could ensure it attracts the more beneficial tax treatment for vans.

The official rate of interest (currently 2.25%) used to calculate the benefit value of employment-related loans and living accommodation will, from April 2025, be allowed to change on a quarterly basis. Previously the rate has been set for a full tax year.

From 6 April 2026, the use of payroll software to report and pay tax on benefits in kind will become mandatory, except in relation to employer-provided loans and living accommodation. These two benefits can be 'payrolled' on a voluntary basis.

BUSINESS TAX

Motor vehicles

Continuing the topic seen earlier on double cab pick-up vehicles, a similar change in approach applies in relation to plant and machinery capital allowances claims. From April 2025, most double cab pick-up vehicles with a payload of 1 tonne or more will need to be treated as cars for capital allowances purposes. This is less favourable than the current common classification as a goods vehicle. While the change applies from April 2025, if the expenditure was incurred as a result of a contract entered into before 1 April 2025 for companies, or 6 April 2025 for non-corporate businesses, and the expenditure is incurred before 1 October 2025, it can continue to be treated as a goods vehicle.

Also on motor vehicles, it was confirmed in the budget that the 100% first-year allowance for zero-emission cars will be extended until 31 March 2026 for corporation tax and 5 April 2026 for income tax.

Making Tax Digital (MTD) for Income Tax

Under the government's MTD for income tax initiative, businesses will be required to keep digital records and send a quarterly summary of their business income and expenses to HMRC using MTD-compatible software. These requirements will be phased in from April 2026, starting with income tax-paying sole traders and property landlords with combined trade and rental income of more than £50,000.

This threshold will be reduced to £30,000 from April 2027 and to £20,000 by the end of this parliament.

Eligible businesses are currently able to opt-in to HMRC's beta testing programme. Please talk to us if you'd like to know more.

Electronic invoicing

In Spring 2025, the government will launch a consultation about electronic invoicing (e-invoicing) to gather input from businesses on how HMRC can support investment in e-invoicing and encourage uptake within the business community. As part of the government's digitisation strategy, e-invoicing is likely to be mandatory in future.

Business rates

For 2025/26, retail, hospitality and leisure (RHL) businesses will be given a 40% relief on their business rates. The small business tax multiplier, which applies to properties with a rateable value of less than £51,000, will also be frozen next year.

The government is looking at longer-term measures to support RHL businesses and intends to permanently lower tax rates from 2026/27 for RHL properties with a rateable value below £500,000.

NATIONAL INSURANCE FOR THE SELF-EMPLOYED

Self-employed individuals pay Class 2 and Class 4 National Insurance Contributions (NICs). The relevant rates and thresholds are:

	2025/26	2024/25
Class 2 NICs per year – mandatory*	£nil	£nil
Class 2 NICs per year – voluntary*	£182.00	£179.40
Small profits threshold (SPT)	£6,845	£6,725
Lower profits limit (LPL)	£12,570	£12,570
Upper profits limit (UPL)	£50,270	£50,270
Class 4 NICs on profits below the LPL	0%	0%
Class 4 NICs on profits between the LPL and the UPL	6%	6%
Class 4 rate on profits above the UPL	2%	2%

* From 2024/25 onwards, Class 2 NICs are effectively abolished. If trade profits exceed the SPT, the individual will accrue entitlement to state benefits such as the state pension. However, if trade profits fall below the SPT, the individual will need to pay Class 2 NICs voluntarily if they need the tax year to qualify for state benefit purposes.

TAX REGIME FOR FURNISHED HOLIDAY LETS

If you let out residential or commercial property, the profits are taxed as part of your 'other income'. If you sell property that has been rented out, capital gains tax is likely to apply. Generally, rental business activity attracts fewer tax reliefs than trading ventures. However, if a residential property meets the strict definition of a 'furnished holiday let' (FHL), enhanced tax relief rules are currently available.

It has been confirmed that, from 6 April 2025, the special tax rules for FHLs will be abolished. Going forward, profits from FHLs will be taxed in the same way as any other rental business.

Please get in touch for a more detailed analysis of how the withdrawal of the FHL status will affect you.

VAT

From 1 April 2025, the VAT registration and deregistration thresholds will remain at £90,000 and £88,000 respectively. There have been no changes to the rates of VAT and the standard rate continues to be set at 20%.

In a key change to VAT, private school fees, which have been exempt from VAT, will be made subject to VAT at 20%. This will start from the school term beginning in January 2025.

CORPORATE TAXES

Rates from 1 April 2025

Corporation tax rates and thresholds for the financial year to 31 March 2026 remain unchanged as follows:

Financial year to 31 March 2026	
Main rate	25%
Small profits rate	19%
Small profit threshold	£50,000
Main rate threshold	£250,000
Marginal relief fraction	3/200
Effective marginal relief rate	26.5%

The thresholds must be equally shared between companies in a group and those controlled by the same person or persons. If an associated company is dormant, then it is not included in this calculation. However, an associated company with only limited activity would be included, which could lead to higher than necessary effective rates of corporation tax. If you are in this situation speak to us about how you might be able to mitigate this.

Companies with profits between the small profit and main rate thresholds will qualify for marginal relief, which effectively means they pay tax at 19% up to the lower threshold and at 26.5% on the balance of their profits.

Roadmap

A corporate tax roadmap has been published by the government, with the view of creating a stable and predictable tax environment. This includes the following commitments:

- The corporation tax rates will not increase beyond the rates shown above. This includes retaining the small profits rate and marginal relief.
- Maintaining the annual investment allowance, giving 100% tax relief on the acquisition of up to £1 million worth of new or second-hand qualifying plant and machinery each year.
- Maintaining the 'full-expensing' regime, giving 50% or 100% tax relief on the acquisition of new and unused qualifying plant and machinery, without limit.
- Maintaining the rates of the current Research and Development (R&D) tax reliefs (see below).

Research & Development (R&D) reliefs

The R&D tax relief regime has seen a lot of change in recent years, and the Labour government is committing to the current rates of relief. Since 1 April 2024, this equates to a 20% taxable contribution from HMRC on qualifying R&D expenditure in the "merged scheme" (used by most claimant companies) and, for 'loss-making R&D intensive SME companies', an 86% uplift in deductible qualifying expenditure with a 14.5% payable tax credit.

An R&D intensive company is one that qualifies as an SME and at least 30% of its total expenditure is invested in R&D.

HMRC continue to take measures to tackle non-compliance in this area, which has led to a reduction in the number of claims made. They carried out compliance checks on 17% of claims received in 2023/24, compared with 10% for 2022/23. Please talk to us if you are considering making a claim so that we can help you to navigate HMRC's compliance checks.

Annual Tax on Enveloped Dwellings (ATED)

Companies and some other entities may need to file ATED returns or pay ATED if they hold a UK residential property with a market value over £500,000. The rates of ATED will increase from 1 April 2025 so please contact us if you require any support with this.