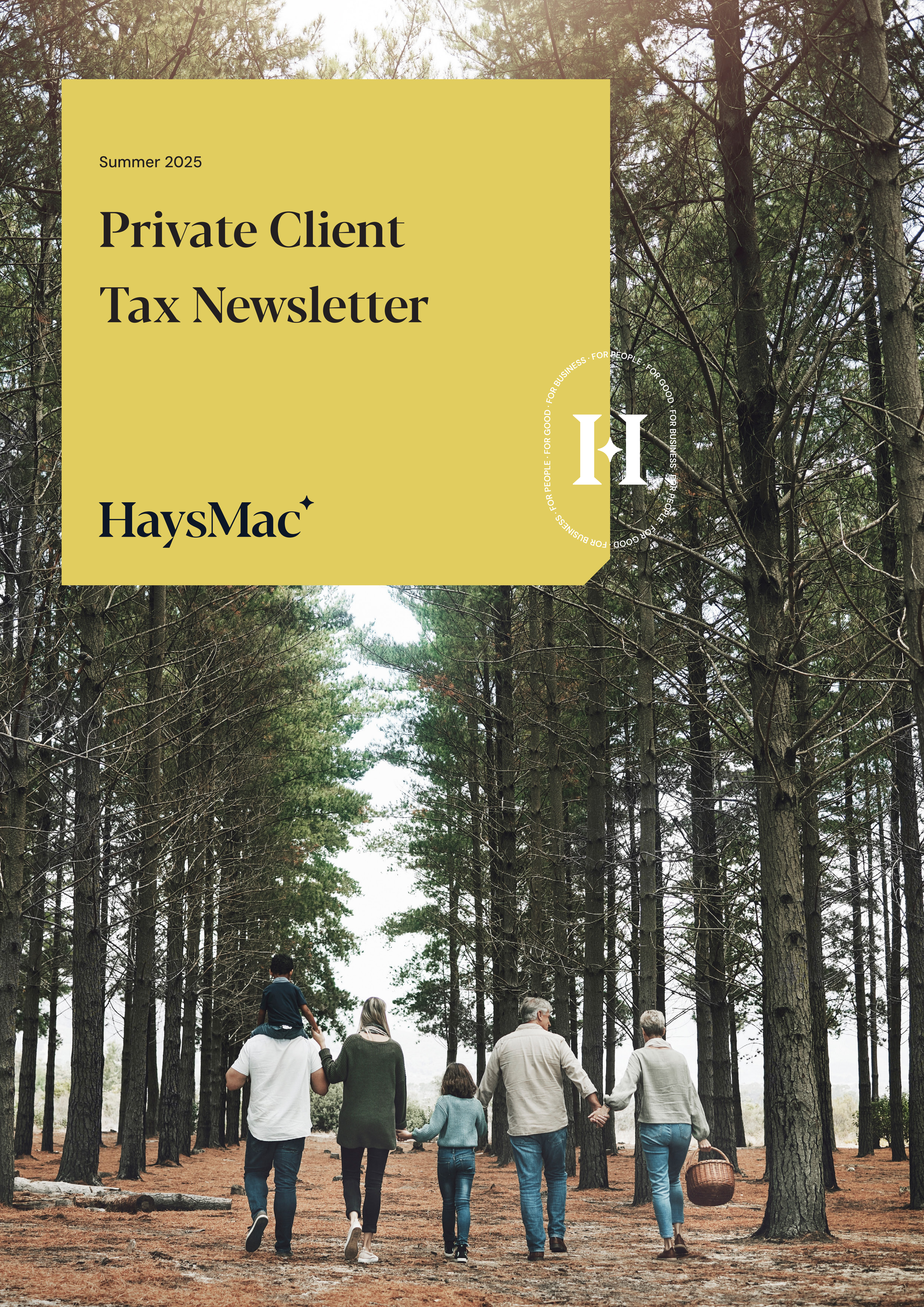
Summer 2025

Private Client Tax Newsletter

HaysMac



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Welcome

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Introduction

Welcome to the latest edition of our Private Client Briefing, which summarises a number of issues and opportunities for individuals, families and trustees.

We are delighted to welcome Graeme Privett to the team as a Private Client Partner.

Following last year's autumn Budget, we again find ourselves with fundamental changes to the UK tax regime, including the abolition of the "non-dom" regime, the introduction of a new Foreign Income and Gains regime and significant changes to the Inheritance Tax rules for pensions, and business and agricultural assets.

After a few false starts, HMRC has also confirmed that Making Tax Digital (MTD) for Income Tax will commence from April next year: another fundamental change for those reporting self-employment and rental income.

Please do not hesitate to contact me or any of the Team, if we can assist you in any way.

Pensions and Inheritance Tax Reform

How Are Pensions Treated for Inheritance Tax?

Currently, pension benefits from registered pension schemes and lump sum payments on death are excluded from a person's estate for IHT purposes. This means that, in most cases, the value of your pension pot will not be subject to IHT when you die. This principle was established by the Inheritance Tax Act 1984 and has been reinforced by subsequent reforms.

Major change from 6 April 2027

In the 2024 Autumn Budget, the government announced that from April 2027, any unused pension funds and certain death benefits will be included in the value of a deceased estate for the purposes of inheritance tax. The value of pension funds in excess of the available nil rate band of £325,000 will be liable to inheritance tax at 40% unless the fund passes to a spouse or civil partner.

The 2027 changes will apply to all overseas pension funds and not just UK registered pension schemes which will bring QNUP's into the scope for IHT.

If it is your intention to draw down your pension to fund your lifestyle during retirement, then the inheritance tax change should not impact you. If, however, you have built up a large pension fund for the purposes of passing a larger proportion of your estate to your children inheritance tax free, you will now need to revisit and review your exiting inheritance tax planning strategy.

Action plan

- If your pension fund remains intact, consider taking the tax-free cash lump sum and either spend it or gift it to your children.
- Take a regular taxable income and making regular gifts out of surplus income.
- Consider the liquidity of your pension fund. Any IHT due on your death has to be paid within six months of death.
- If you are over 75 and you have not drawn down your pension fund advice should be sought to avoid the double taxation of inheritance tax and income tax for your beneficiaries.
- Review your death benefit nominations and leave pension funds to your spouse to benefit from the IHT spouse exemption.
- Take financial advice on using your pension fund to purchase an annuity.

In light of the 2027 changes, if you expect to have an unused pension fund on your death it is vital that you seek professional guidance to ensure your pension savings are passed on as efficiently as possible. Please contact our team for tailored advice.

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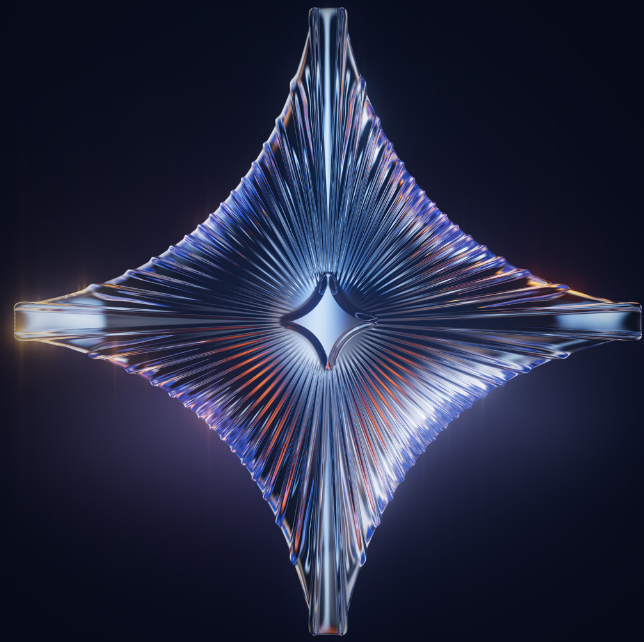

UK Inheritance Tax: The Move to a Residence-Based Regime from April 2025

The UK government has announced a landmark reform to the Inheritance Tax (IHT) regime, fundamentally altering how individuals and trusts are taxed on their worldwide assets. From 6 April 2025, the IHT system shifted from a domicile-based approach to a residence-based regime.

The End of Domicile for IHT: Introduction of the Long-Term UK Residence Test

Historically, liability to UK IHT has depended on an individual's domicile status. Non-UK domiciled individuals have generally only been subject to IHT on their UK assets, with non-UK assets treated as "excluded property." From 6 April 2025, this changed dramatically.

IHT exposure will now be determined by whether an individual is a "long-term UK resident." The concept of domicile (and deemed domicile) will be abolished for IHT purposes.

Who is a Long-Term UK Resident?

An individual will be classed as a long-term UK resident if they have been UK tax resident for at least 10 out of the previous 20 tax years. The residence test will be determined using the statutory residence test.

When a long-term resident leaves the UK, their worldwide assets will remain within the scope of inheritance tax for a number of years. The minimum length of the inheritance tax tail is three years which applies to individuals who have been residents for 10 to 13 of the last 20 tax years. The length of the tail as demonstrated in the chart below increases by one tax year for each additional tax year of residence up to a maximum of 10 years. An individual's exposure to inheritance tax on his non-UK assets cannot therefore be removed by simply leaving the UK.

Number of years resident	IHT Tail
13 or less	3
14	4
15	5
16	6
17	7
18	8
19	9
20	10

Impact on Trusts

Trusts still offer attractive succession planning and asset protection for wealthy families. However, from 6 April 2025, the IHT status of non-UK assets comprised in a trust will not be fixed by reference to the settlor's domicile but will depend whether the settlor is a long-term resident on the date of the IHT charge. The IHT status of a trust can therefore change throughout the life of the settlor.

- If a settlor is a long-term resident and dies after 6 April 2025, the non-UK assets will continue to be within the charge to IHT throughout the lifetime of the trust.
- If the settlor died before 6 April 2025 the non-UK assets will be outside the scope of IHT for the remaining life of the trust if he was non-UK domiciled at the time the assets became comprised in the trust.
- If the settlor is not a long-term resident and dies after 6 April 2025, the trust assets remain outside the scope of IHT for the remaining life of the trust.

Where the settlor ceases to be a long-term resident this will give rise to a deemed exit charge.

Trustees and settlors should review existing trust structures in light of the new rules. The residence status of the settlor will be key in determining whether non-UK assets remain outside the scope of IHT. The exit charge for long term resident settlors moving abroad could be punitive so care should be taken to avoid long-term residence status, if at all possible, in these situations.

What Should You Do Now?

- Review residence history: Individuals who have spent significant time in the UK should assess whether they will be classed as long-term UK residents from April 2025.
- Review the residence status of settlors: This will determine the current inheritance tax status of the trust. If the settlor is planning to leave the UK, careful planning is required.
- Trust review: If they have not already, Trustees and settlors should review trust structures, especially those involving non-UK assets, to determine whether restructuring or winding up should be considered.

Conclusion

The move to a residence-based IHT regime represents the most significant change to UK inheritance tax in decades. The abolition of domicile as the key test for IHT exposure will have far-reaching consequences for international families, non-UK domiciliaries, and trustees. Early review and planning are essential to ensure that structures remain fit for purpose and to take advantage of transitional protections where available.

For tailored advice on how these changes may affect your estate or trust, please contact our private client team.

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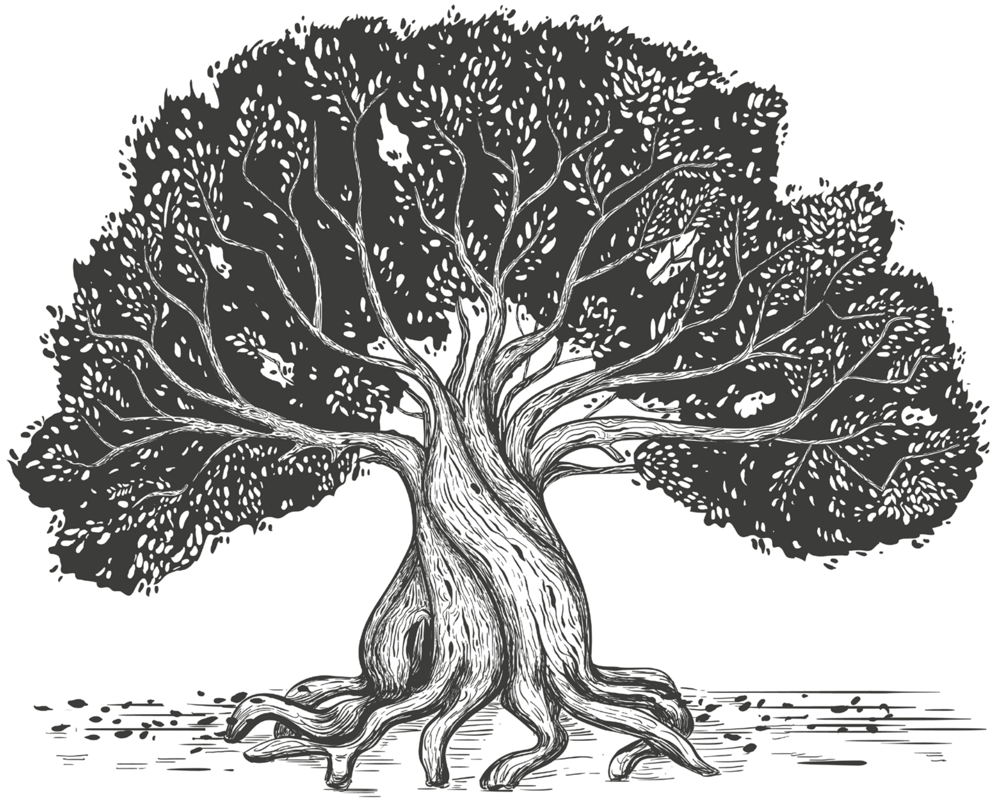

Inheritance Tax Changes to Business and Agricultural Reliefs

The 2024 Autumn Budget introduced sweeping reforms to Inheritance Tax (IHT) reliefs for business and agricultural property, with significant implications for business owners, farmers, and their families. These changes, set to take effect from 6 April 2026, mark the most substantial overhaul of Business Relief (BR) and Agricultural Relief (AR) in decades. Here's what you need to know and how you can prepare.

Current Rules: A Brief Overview

Business Relief (BR):

BR currently allows qualifying business assets—such as shares in unquoted trading companies or interests in a business/partnership—to be passed on free of IHT (at 100% relief) or at a reduced rate (50%), provided certain conditions are met. This relief is a cornerstone of succession planning for family businesses.

Agricultural Relief (AR):

AR offers similar relief for agricultural land and property, again at 100% or 50% depending on the circumstances. The relief is available for land and property used for agricultural purposes and is a vital relief for farmers wishing to pass on their farming business to the next generation without triggering a large IHT bill.

What's Changing from 6 April 2026?

1. Introduction of a £1 Million Cap for 100% Relief

From 6 April 2026, the most generous 100% rate of relief for both BR and AR will be capped at the first £1 million of qualifying business and agricultural property per estate. Any value above this threshold will only qualify for 50% relief. This is a significant departure from the current regime, where there is no upper limit on the value qualifying for 100% relief.

2. Combined Cap Across Both Reliefs

The £1 million cap applies to the combined value of assets qualifying for both BR and AR. This means that if an estate includes both business and agricultural property, only the first £1 million in total will attract 100% relief; the remainder will be subject to the reduced 50% rate.

3. Extension of AR to Environmental Land Management

From 6 April 2025, AR has been extended to cover land managed under environmental agreements with government or approved bodies. This is a positive development for landowners engaged in protecting, restoring or enhancing the natural environment, ensuring that the transactions in such land can also benefit from IHT relief.

4. Reduced Relief for AIM listed Shares

Shares traded on unlisted markets, such as AIM, will only qualify for 50% relief, regardless of their value or the overall size of the estate. This change will particularly affect those holding significant investments in AIM-listed companies, who previously benefited from 100% relief.

Why Are These Changes Being Made?

The government's stated aim is to better target relief at smaller and family-run businesses and farms, while curbing the ability of very large estates to benefit from unlimited 100% relief. The government also expects the reforms to raise significant additional revenue for the Exchequer. Research suggests however that the changes announced could result in a net fiscal loss to the government.

Transitional Arrangements

- The new rules will apply to deaths and chargeable transfers occurring on or after 6 April 2026.
- Estates and chargeable transfers before this date will continue to benefit from the current, more generous rules.
- HMRC ran a technical consultation in early 2025 to clarify the finer details of how the new cap and combined threshold will operate in practice.

Practical Implications and Next Steps

For Business Owners and Farmers:

If your estate includes business or agricultural property valued above £1 million, you will see a substantial increase in your IHT liability. Those with significant holdings in AIM or other unlisted shares will also be affected, as these will only attract 50% relief going forward.

Estate Planning Considerations:

With these changes on the horizon, it is more important than ever to review your estate planning strategy. Consider the timing of transfers, maximising the spouse exemption, the structure of your business or land holdings, and the transfer of assets during your lifetime to mitigate the potential impact on your family's inheritance tax position.

Seek Professional Advice:

Given the complexity and significance of these reforms, we strongly recommend seeking professional advice to understand how the new rules will affect your specific circumstances and to explore planning opportunities before the changes take effect.

Conclusion

The 2024 Budget's reforms to BR and AR represent a fundamental shift in the inheritance tax landscape for business and agricultural assets. With the introduction of a combined £1 million cap for 100% relief and reduced relief for unlisted shares, careful planning will be essential to mitigate the impact on your estate. If you would like to discuss how these changes may affect you, please contact our team for tailored advice.

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The Impact of Freezing the Inheritance Tax Nil-Rate Band and Reliefs

In recent years, the government has chosen to freeze the inheritance tax (IHT) nil-rate band and related reliefs, a move with significant implications for individuals and families. Understanding how these freezes affect IHT liabilities is crucial for effective estate planning.

What is the Nil-Rate Band?

The main IHT exemption, the nil-rate band is the threshold up to which an estate is not subject to IHT. Currently, the nil-rate band stands at £325,000. Any part of an estate above this threshold is generally taxed at 40%. The nil-rate band is intended to increase in line with inflation, but the government can, and has, chosen to freeze it at a fixed amount since 2009.

What Does Freezing the Nil-Rate Band Mean?

The nil rate band has not increased in line with inflation since 2009 and has now been frozen until 2030. As a result, as property values and other assets rise over time, more estates exceed the threshold and become liable to IHT or pay more tax than they would have if the band had increased.

Had the nil rate band kept pace with inflation, the nil rate band would rise to over £500,000 by 2029/30. This phenomenon is often referred to as "fiscal drag."

Transferable Nil-Rate Band

If a person leaves their estate to their spouse or civil partner, any unused nil-rate band can be transferred to the survivor. However, the amount transferred is based on the nil-rate band at the time of the survivor's death. If the nil-rate band remains frozen, the survivor's estate cannot benefit from a higher threshold that would have resulted from indexation.

Residence Nil-Rate Band (RNRB)

In addition to the standard nil-rate band, there is a residence nil-rate band (RNRB), which applies when a home is left to direct descendants. The RNRB is currently set at £175,000 and, like the main nil-rate band, has not increased since it was introduced in 2017. This means the real value of the RNRB is eroded over time, and fewer estates benefit fully from this relief as property prices rise.

Practical Consequences

- More Estates Liable to IHT: As asset values increase but the nil-rate band remains static, more estates are pushed above the threshold and become liable to IHT.
- Small annual exemption: The £3,000 annual exemption and other small gift reliefs have remained unchanged since the 1980's and no longer cover the majority of small gifts made today.
- Higher Tax Bills: Estates already above the threshold may face higher tax bills as the real value of the nil-rate band and RNRB declines.
- Estate Planning Complexity: The interaction of the frozen nil-rate band, transferable nil-rate band, and RNRB increases the complexity of IHT calculations and planning. Regular reviews of wills and estate plans are essential to ensure all available reliefs and exemptions are use effectively.

Conclusion

The freezing of the nil-rate band and related reliefs for inheritance tax means that thresholds do not keep pace with inflation, resulting in more estates being subject to IHT and bumper receipts for the Exchequer. The real value of these reliefs erodes over time, making careful estate planning and the use of available reliefs more important than ever. If you are concerned about how these changes may affect your estate, we recommend seeking professional advice to ensure your affairs are structured as efficiently as possible.

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Abolition of the UK non-dom regime from April 2025

The UK's long-standing non-domiciled ("non-dom") tax regime will be abolished from 6 April 2025, marking a fundamental shift in the taxation of international individuals living in the UK. The changes, introduced by the Finance Act 2025, will have far-reaching consequences for current non-doms, new arrivals, and those with offshore trusts and assets. Below, we outline the **key changes, transitional reliefs, and planning points.**

1. End of the remittance basis

From the 2025/26 tax year, the remittance basis on current foreign income and gains will no longer be available. Historically, non-doms could elect to be taxed only on UK-source income and gains, and on foreign income and gains only if remitted to the UK. This regime ends with the 2024/25 tax year. From 6 April 2025, all UK residents—regardless of domicile and with very limited exceptions — will be taxed on their worldwide income and gains as they arise.

Key points:

- The last year to claim the remittance basis is 2024/25.
- From 2025/26, all UK residents are taxed on the arising basis except very limited circumstances.
- Remittance rules continue to apply to pre-2025/26 income and gains.

2. New relief for "Qualifying New Residents"

To maintain the UK's attractiveness for internationally mobile talent, a new relief is introduced for individuals who become UK resident after at least 10 consecutive years of non-residence. These "qualifying new residents" can claim relief from UK tax on foreign income and gains for up to four consecutive tax years. There is also no requirement to be non-UK domiciled to apply for this relief, so this will be of interest to returning UK ex-pats.

Key points:

- Relief is available for up to four UK tax years.
- Only available if you have not been UK resident in any of the previous 10 UK tax years.
- Claimants are not entitled to UK personal allowances or certain other reliefs during the relief period.

3. Temporary repatriation facility (TRF)

A special facility is available for those who previously used the remittance basis. The TRF allows individuals to bring previously unremitted foreign income and gains into the UK at a reduced tax rate.

Key points:

Available for the 2025/26, 2026/27, and 2027/28 tax years.

- Taxed at 12% (2025/26 and 2026/27) or 15% (2027/28) on qualifying amounts. The "old" rules on the categorisation of funds will still be of importance, so pre-arrival capital will still not be taxed in the UK if remitted,
- Once the TRF charge is paid, the remitted amounts are exempt from further UK tax.
- Only available to those who claimed the remittance basis before 2025/26.
- Careful attention is required where non-UK tax is paid on the foreign income and gains being remitted to the UK under the TRF.
- Still possible to remit funds to the UK tax-free where used for certain business investments in the UK.

4. Rebasing of foreign assets

Individuals who were not UK domiciled before 2025/26 and who claimed the remittance basis for at least one year between 2017/18 and 2024/25 benefit from a rebasing of foreign assets for capital gains tax purposes.

Key points:

- For disposals on or after 6 April 2025, foreign assets held on 5 April 2017 are rebased to their market value at that date.
- Applies automatically unless the individual elects otherwise.

5. Offshore trusts and settlements – Income and Gains

Up to 5 April 2025, there were special protections for certain foreign income and gains realised by the Trustees of a non-UK resident trust settled by a UK resident, who was not domiciled in the UK when the Trust was created. From 6 April 2025, this protection has been removed so UK resident settlors of non-UK resident trusts will be taxed on worldwide trust income and gains as if it were their own. Beneficiaries of foreign trusts created by settlors not caught by the settlor-interested rules will still be taxed on the income and gains distributed or deemed to have been distributed to them.

Key points:

- Trust protections for non-doms end from 2025/26.
- Transitional rules apply to pre-2025/26 income and gains.

6. Inheritance Tax: Domicile replaced by long-term residence

From 6 April 2025, the concept of "domicile" is replaced by a "long-term UK resident" test for UK inheritance tax (IHT) purposes. An individual will now be within the scope of UK IHT if they have been UK resident for at least 10 of the previous 20 tax years.

Key points:

- Excluded property status for non-UK assets is now based on long-term residence, not domicile.
- The 10/20 year test determines IHT exposure.
- It is important to note that this treatment does not apply to all formerly non-UK domiciled individuals as there is separate protection under the terms of certain Gift and Estate Tax treaties that the UK has with specific countries, including principally the US.
- By moving to a residence-based system and ignoring domicile for UK domestic tax purposes, there is greater certainty for individuals who were UK domiciled to create trusts after a sufficiently long enough period of absence.

7. Transitional and anti-forestalling provisions

A range of transitional rules and anti-avoidance measures apply to ensure a smooth transition and to prevent pre-emptive planning designed to sidestep the new rules.

Change	Effective Date
Remittance basis abolished	2025/26 onwards
Temporary reputation facility (TRF)	2025/26 to 2027/28
Asset rebasing for former non-doms	6 April 2025 onwards
New resident reliefs (qualifying new resident)	2025/26 onwards
Trust protections for non-doms removed	2025/26 onwards
IHT: Domicile replaced by long-term residence	6 April 2025 onwards

What should you do now?

The abolition of the non-dom regime is a seismic change for internationally mobile individuals and families. If you are affected, it is essential to review your tax position, consider the transitional reliefs, and plan ahead. Key actions may include:

- Reviewing offshore structures and trusts.
- Considering use of the TRF to repatriate foreign income/gains at a reduced rate.
- Assessing eligibility for asset rebasing.
- Planning for the new IHT long-term residence test.

For tailored advice on how these changes affect you, please contact our specialist team.

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UK tax changes for offshore trusts from 2025

Alongside the non-domiciled (non-dom) tax changes, the UK's Finance Act 2025 brings sweeping reforms to the taxation of offshore trusts, fundamentally altering the landscape for settlors, trustees, and beneficiaries with UK connections. Below, we outline the key changes and **their practical implications.**

1. End of the remittance basis and move to residence-based taxation

From 6 April 2025, the remittance basis of taxation is abolished for current foreign income and gains. All UK residents (with the exception of qualifying new residents) will be taxed on their worldwide income and gains as they arise, regardless of their domicile status. The remittance basis will only apply to income and gains arising up to, and including, the 2024-25 tax year, and only if remitted before 6 April 2025.

Implication:

UK residents who have settled offshore trusts and UK residents who benefit from them will no longer be able to shelter foreign income and gains from UK tax by keeping them offshore. Foreign Income and Gains realised before 6 April 2025 that has not been remitted to the UK will be taxed if remitted after 5 April 2025.

2. Relief for "qualifying new residents"

A new relief is introduced for individuals who become UK tax resident after a period of at least 10 consecutive years of non-residence. These "qualifying new residents" can claim up to four years of full relief from UK tax on foreign income and gains, including those arising in offshore trusts, provided certain conditions are met.

Implication:

This relief offers a valuable window for new arrivals to the UK, but is not available to long-term residents or returning UK residents who have not met the 10-year non-residence requirement.

3. Offshore trust income: Abolition of protected foreign source income

The concept of "protected foreign source income" (PFSI), which previously allowed certain foreign income in offshore trusts to be protected from immediate UK tax charges, is abolished. From 2025-26, foreign income arising in offshore trusts is generally subject to UK tax as it arises on the settlor if they are resident in the UK or beneficiaries in receipt of distributions or benefits, unless the qualifying new resident relief applies.

Implication:

Trustees and beneficiaries must prepare for the immediate UK tax exposure on foreign income, with no further protection for non-doms. This includes the extraction of the income to fund UK tax payments that will fall due. These changes will not affect the treatment of income that has been accumulated in the Trust at 5 April 2025 and subsequently distributed to UK resident beneficiaries.

4. Settlements legislation and transfer of assets abroad

The settlements code and transfer of assets abroad (TOAA) rules are updated to remove references to domicile and the remittance basis. Income arising in offshore trusts will be attributed to UK resident settlors as if it were their own income on an arising basis or on other beneficiaries in receipt of distributions or benefits, subject to the new resident reliefs.

Implication:

The attribution of trust income and gains to UK residents will be more straightforward and less dependent on historic domicile status.

5. Capital Gains Tax: Trust Gains

The capital gains tax rules for offshore trusts are overhauled. The "protected settlement" regime is abolished, and gains arising in non-UK resident trusts will be attributed to UK resident settlors as they arise or to beneficiaries as they receivedistributions or benefits, unless the qualifying new resident relief applies.

Implication:

UK resident beneficiaries and settlors will face immediate UK tax on trust gains, with no remittance basis shelter.

6. Transitional provisions and temporary repatriation facility

A "temporary repatriation facility" (TRF) is introduced for individuals, allowing former remittance basis users to bring previously unremitted foreign income and gains (including those from offshore trusts) into the UK between 2025-26 and 2027-28 at a flat tax rate (12% for 2025-26 and 2026-27, 15% for 2027-28). Amounts brought in under this facility are exempt from further UK tax.

Implication:

This is a valuable, time-limited opportunity for individuals to remit their historical offshore income and gains at a reduced tax cost. As was the case up to 5 April 2025, the composition of capital, income and gains in an account outside the UK remains of importance.

7. Onward gifting and anti-avoidance

New anti-avoidance rules target "onward gifts" routed through non-residents or qualifying new residents. If a benefit or capital payment is received by a non-resident or qualifying new resident and then passed on to a UK resident, the UK resident is treated as having received the benefit or payment directly from the trust for tax purposes.

Implication:

These rules are designed to prevent circumvention of the new regime and will require careful consideration of trust distributions and onward gifts.

8. Inheritance tax: Domicile replaced by long-term residence

For inheritance tax (IHT), the concept of domicile is replaced by a "long-term UK resident" test. An individual is a long-term UK resident if they have been UK resident for at least 10 of the previous 20 tax years. The excluded property status for offshore trusts is now determined by the long-term residence status of the settlor, not their domicile. There are limited exclusions to these rules in Estate Tax Agreements that the UK has entered into with specific jurisdictions, which could provide a better result.

Implication:

Trusts settled by individuals who become long-term UK residents may lose their excluded property status, bringing offshore assets within the UK inheritance tax net.

9. Rebasing of foreign assets

Individuals who have previously used the remittance basis at least once between 2017/18 and 2024/25 may rebase foreign assets to their market value at 5 April 2017 for capital gains tax purposes, provided certain conditions are met. This applies to assets held on 5 April 2017 and disposed of on or after 6 April 2025.

Implication:

This offers some mitigation for capital gains tax on historic growth in foreign assets.

10. Other technical and consequential amendments

Numerous technical amendments are made to remove references to domicile and the remittance basis throughout the tax code, including in trust reporting and the application of anti-avoidance rules.

Summary table: Key changes for offshore trusts (2025 onwards)

Area	Pre-2025 regime (remittance basis)
Income tax on trusts income	PFSI protected for non-doms: taxed on remittance
Asset rebasing for former non-doms	6 April 2025 onwards
Capital Gains Tax on Trust Gains	Protected settlements regime; gains taxed on remittance
Temporary repatriation facility	Not available
Onward gifting rules	Limited anti-avoidance
Inheritance tax	Domicile-based excluded property
Rebasing of foreign assets	Only for certain remittance basis users

Conclusion

The 2025 reforms represent a fundamental shift in the UK's approach to taxing offshore trusts. The abolition of the remittance basis and the move to a residence-based regime means that most foreign income and gains arising in offshore trusts will be taxed on an arising basis for UK residents, with only limited relief for new arrivals. The temporary repatriation facility offers a unique, time-limited opportunity to bring historic foreign income and gains into the UK at a reduced tax rate. The inheritance tax regime is also overhauled, with long-term residence replacing domicile as the key test for excluded property.

Trustees, settlors, and beneficiaries of offshore trusts should urgently review their structures and consider the impact of these changes on their UK tax exposure. Early action and professional advice are essential to navigate the new regime and make the most of available reliefs and transitional provisions.

For further advice on how these changes may affect your offshore trust arrangements, please contact our Private Client and Trusts team.

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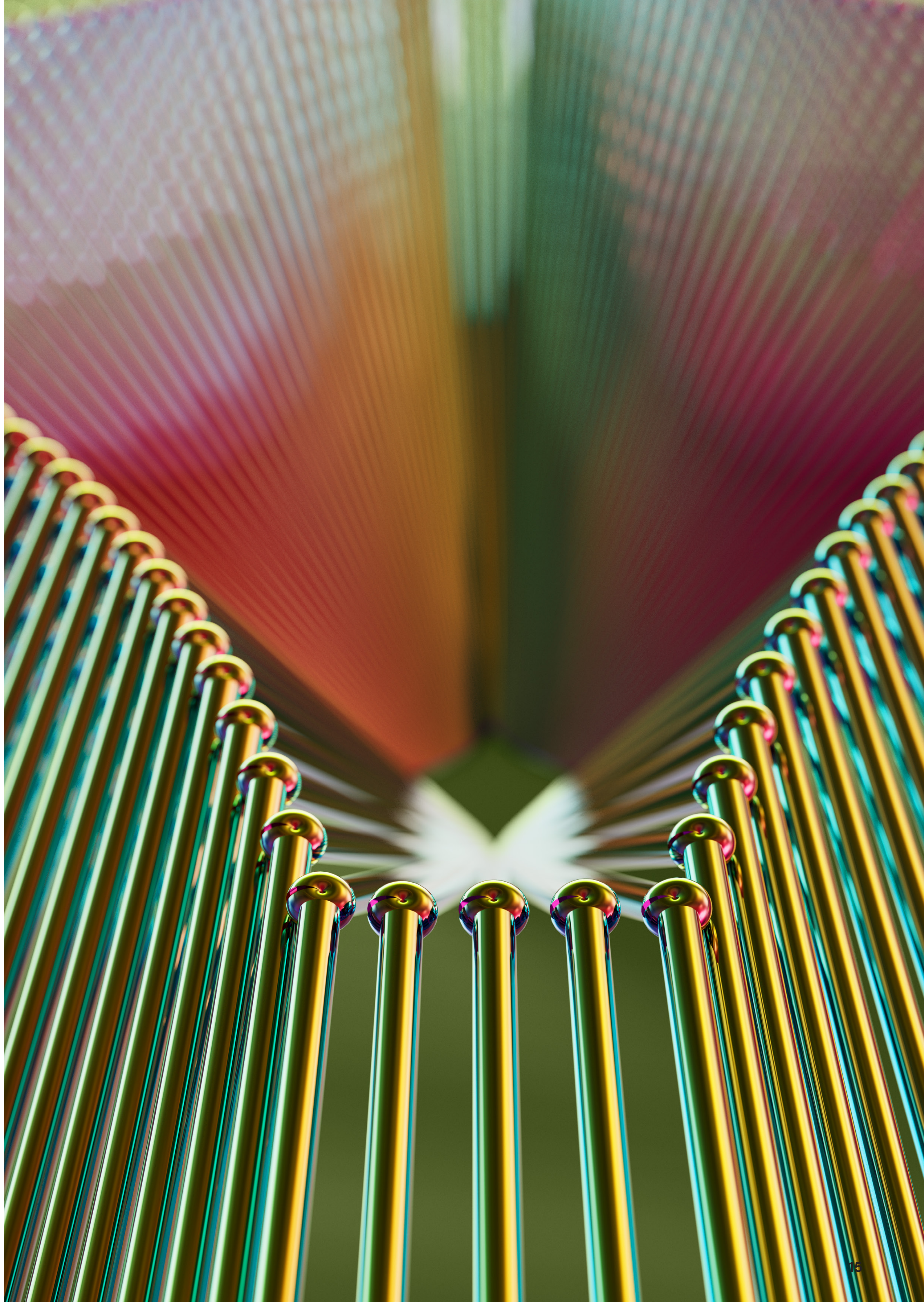

Unremittable income: what UK taxpayers need to know for Self-Assessment

UK taxpayers with foreign income may sometimes find themselves unable to bring that income into the UK due to circumstances beyond their control, such as foreign exchange controls or government restrictions. In these cases, the UK tax system provides specific relief under the "unremittable income" rules. But what is unremittable income, how does the relief work, and what steps do you need to take when completing your self-assessment tax return?

What is unremittable income?

Unremittable income is foreign income that a UK taxpayer cannot transfer to the UK because of:

- The laws of the country where the income arises (such as exchange controls),
- Executive action by that country's government, or
- The impossibility of obtaining foreign currency that could be transferred to the UK.

To qualify as unremittable, the taxpayer must also not have the income outside that country in a form (such as sterling or another transferable currency) that could be brought to the UK.

Who can claim relief?

These rules apply to individuals taxed on the "arising basis" (i.e., on worldwide income as it arises, not just when it is brought to the UK). If you are taxed on the remittance basis, you are generally only taxed on foreign income actually brought to the UK, so these rules are less relevant—though there are some exceptions for those with small amounts of unremitted income.

How does the relief work?

If you have income that meets the definition of unremittable, you can claim relief so that the income is not taxed in the year it arises. Instead, it will only be taxed if and when it becomes possible to remit it to the UK.

The key steps are:

1. Declare the income:you must still declare the unremittable income on your self-assessment tax return (including a note of any foreign tax suffered).

2. Make a claim:you must make a formal claim for relief as part of your tax return. The claim must be made by the first anniversary of the normal filing date for the relevant tax year.

3. Monitor the situation:each year, you must check whether the income remains unremittable. If the restrictions are lifted and you can bring the income to the UK, you must declare it in that year's tax return, and it will be taxed then.

4. Exchange rate:when the income becomes remittable, it is taxed at the exchange rate prevailing on the date it becomes possible to remit.

Important points to note

- The relief is not available if you have received an insurance payment from the Export Credits Guarantee Department (ECGD) in respect of the unremittable income.
- The rules do not apply to overseas debts of a UK trade that cannot be settled due to currency restrictions.
- If you do not make a claim, the income will be taxed in the year it arises, valued at the market rate for the currency in the UK (or the official rate if there is no market).
- If the income becomes remittable in a later year, it is taxed in that year, even if the original source of the income no longer exists.

Example

Suppose you are a UK resident with a bank account in a country that imposes strict exchange controls, preventing you from transferring interest income to the UK. You can claim relief for this unremittable income on your Self-Assessment tax return. If, in a later year, the controls are lifted, you must declare the previously unremittable income in that year's return, using the exchange rate at the time it becomes remittable.

Summary checklist for Self-Assessment

- Identify any foreign income that cannot be remitted due to legal or practical restrictions.
- Declare the income on your self-assessment tax return.
- Make a claim for relief within the required time limit.
- Review the situation annually and declare the income in the year it becomes remittable.
- Ensure you have not received an ECGD insurance payment for the income.

Conclusion

The unremittable income rules are designed to ensure that UK taxpayers are not unfairly taxed on foreign income they cannot access. However, strict conditions apply, and it is essential to follow the correct procedures when completing your self-assessment tax return. If you are unsure whether your foreign income qualifies as unremittable or need help with your claim, seek professional advice to ensure you remain compliant and make the most of the relief available.

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Choosing the Right Structure for Your Business: LLP vs Ltd Company

Whether establishing a new business or managing an existing one, having the optimal structure is a crucial decision for any business owner. This article, at a high level, compares Limited Liability Partnerships (LLPs) and Limited Companies (Ltd), **focusing on legal structure and tax treatment.**

Legal Structure & Flexibility

Both LLPs and Ltds are separate legal entities, but they differ in governance.

Ltd companies are regulated by the Companies Act and their articles of association. Shareholders' rights are typically bound to their shareholdings and changes to profit sharing, for example, require formal changes to articles or share structure. This can make adapting to changing business more cumbersome.

In contrast, LLPs are governed by an LLP agreement, offering greater flexibility. This allows members to tailor arrangements around profit sharing, management and capital contributions, making LLPs particularly attractive for professional partnerships or businesses with evolving roles and responsibilities.

Tax Transparency

An LLP is tax-transparent, meaning it doesn't pay tax on its profits. Instead, profits are allocated to members who are taxed individually as the profits arise, regardless of whether they are distributed. This results in a single layer of taxation.

This compares with a Ltd company which pays corporation tax (currently up to 25%) on its profits. If profits are then distributed as dividends, shareholders also pay income tax on those dividends, leading to double taxation.

While companies can retain post-tax profits for reinvestment which is potentially beneficial for growth, recent increases in corporation tax and dividend tax rates have narrowed the tax advantage once enjoyed by Ltd companies.

Profit Sharing & NIC Savings

LLPs excel in their ability to accommodate bespoke profit-sharing arrangements. The LLP agreement can allocate profits in any proportion, reflecting each member's contribution or performance. This flexibility allows for dynamic reward structures, which can be adjusted as the business evolves or as members' involvement changes.

This adaptability is harder to achieve in a Ltd company, where dividends must usually be paid in line with shareholdings unless different share classes are created. Altering profit entitlements often requires issuing new shares or amending share rights, which can be administratively complex and less responsive to changing circumstances.

Another key advantage of LLPs is the potential for National Insurance Contribution (NIC) savings. LLP members are generally treated as self-employed and pay Class 2 and Class 4 NICs, which are typically lower than the combined employer and employee Class 1 NICs paid by company directors and employees. This is especially relevant following the recent increase in the employer NIC rate to 15% and the reduction of Class 4 NIC to 6%.

Salaried Members Rules

Since 2014, LLPs have been subject to the "salaried members" rules. These aim to ensure that individuals who are effectively employees are taxed as such. A member will be treated as a salaried member and taxed under PAYE if all the following apply:

A. At least 80% of their total remuneration is fixed or not linked to the overall profits of the LLP,
B. The individual does not have significant influence over the affairs of the LLP, and
C. The individual's capital contribution to the LLP is less than 25% of their expected fixed income from the LLP.

These rules have important implications for both the LLPs and their members. Genuine partners who share in the risks and rewards, contribute capital, and have a say in management will typically retain self-employed status and benefit from the NIC savings. Others may be taxed as employees. LLPs should regularly review agreements and remuneration structures to ensure compliance and to avoid unexpected tax liabilities.

Which Structure is Right for You?

Both LLPs and Ltd companies offer different advantages; the LLP stands out for its flexibility in governance, profit sharing, and potential tax efficiency; a Ltd offers greater flexibility in raising capital for example. The best choice for you will depend on your business's specific needs, growth plans, and the personal circumstances of the owners.

If you're considering your options, the HaysMac team is here to help. We offer tailored advice to ensure your business is structured in the most tax-efficient and commercially effective way.

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Major UK Tax Changes for Private Equity

The UK tax landscape for private equity is undergoing significant reform, with new rules having taken effect from April 2025. These changes will have a substantial impact on fund managers and other professionals who have an entitlement to receive carried interest. Whilst most of the changes were confirmed as part of The Chancellor's Autumn Budget in October 2024, HMRC continue to engage in consultations to agree the finer details.

The changes come as part of a broader initiative by the Government to increase tax revenues and address perceived inequities in the tax system. The Autumn Budget specifically targeted carried interest despite protests from industry figureheads and stakeholders, who stressed the importance of maintaining the UK's competitiveness as a private equity hub and, more importantly, a financial centre. Below, we outline the key changes and considerations which will impact those working in the industry.

Higher Capital Gains Tax Rate

From 6 April 2025, carried interest is subject to a new, higher capital gains tax (CGT) rate of 32%. This is a notable increase from the previous rate of 28% and is designed to narrow the gap between the taxation of carried interest and income tax rates.

Carried interest will continue to be taxed when proceeds are actually received by the fund manager, rather than when the entitlement arises. This timing aligns the tax liability with the distribution of profits, which differs from how carry is taxed in other jurisdictions (notably the US) and so this is a consideration for internationally mobile executives.

Carried interest from April 2026 and beyond

The increased 32% rate of CGT for carried interest receipts will however only apply for one tax year, until 5 April 2026. Beyond that date, carried interest will be reclassified as 'trading income' and thus subject to Income Tax (rather than CGT), and Class 4 NICs.

However, in an attempt by the Government to maintain London's competitive advantage for Financial Services as alluded to earlier, 'qualifying' carried interest will be subject to a 72.5% multiplier. This multiplier imposes an effective tax rate of 34.075% which, whilst notably higher than the 28% CGT rate of old, is still lower than the additional income tax rate of 45%.

Non-qualifying carried interest will be treated as Income Based Carried Interest (IBCI) and will follow the same treatment as previously, being treated and taxed as profits from a deemed trade and thus subject Income Tax and NICs.

Whilst this new approach seems simple enough, uncertainty remains in terms of what constitutes 'qualifying' carried interest in order to access to the 72.5% multiplier. It remains to be seen whether the familiar rules of old will be followed, or whether the Chancellor imposes additional qualifying criteria. Potential conditions could involve a minimum co-investment requirement, or an extension to the minimum average weighted asset holding period. HaysMac were involved in HMRC's consultation process to ensure that the views of our clients who will be impacted are heard.

There are special rules which will apply to non-resident carry recipients where services have been performed from the UK, as well as those who are new to the UK and can therefore benefit from the 4-year Foreign Income and Gains (FIG) regime. Seeking bespoke advice will be especially important for these individuals.

Compliance and reporting

HMRC recently updated its guidance regarding the level of information and disclosures that are recommended in order to reduce the likelihood that an individual's Tax Returns are subject to compliance checks

Whilst not mandatory, HMRC suggests that carry recipients include the following information with their Tax Return submissions:

- Explanatory disclosure notes within the Tax Return
- Supporting computations showing how the carry figures were calculated
- A copy of the 'tax pack' where provided by the fund.

Carry recipients are expected to make reasonable efforts to obtain the necessary information to complete their Tax Returns, and penalties should not apply where reasonable care is demonstrated. It should also be noted that HMRC recently stated that simply obtaining a copy of the fund's 'tax pack' does not constitute taking 'reasonable care' in ensuring that your Tax Returns are correct, especially in instances where the tax packs are produced for another jurisdiction rather than being UK-specific. Taxpayers should therefore take additional steps where possible to ensure that their Tax Returns are correct.

What should private equity professionals do now?

- With these changes on the horizon, private equity fund managers and those with entitlements to receive carried interest should engage with their advisors to discuss the tax changes and the important considerations:
- Whilst it is now too late for crystallisation events to take advantage of the previous 28% CGT rate, pre-5 April 2026 exits will be subject to CGT at the rate of 32% and so it is worthwhile reviewing your exit pipeline and assessing the impact of these for the carry recipients.
- Non-resident or newly resident carry recipients should seek professional advice as early as possible to ensure that they are taking advantage of the opportunities presented by the new rules and the FIG regime.
- Fund administrators may consider the contents of their 'tax packs' to assist UK carry recipients with their reporting and compliance requirements.
- Carry recipients may wish to revisit their reward/compensation arrangements to take the new tax regime and rates into account.
- Once further clarity has been provided on the conditions required to be met in order to be deemed 'qualifying carried interest', existing and future investments and structures should be revisited.

For further guidance or to discuss how these changes may affect you or your fund, please contact a member of our specialist tax team.

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Making Tax Digital for Income Tax from 2026

Making Tax Digital (MTD) for Income Tax is a major UK government initiative aimed at modernising the tax system for self-employed individuals and landlords. Its objective is to make tax administration more effective, efficient, and straightforward by mandating digital record-keeping and more frequent reporting to HMRC. Here's what you need to know about the upcoming requirements and how they may affect you.

Who will be affected and when?

MTD for Income Tax will be introduced in phases:

- From 6 April 2026, it will be mandatory for individuals (sole traders and landlords) with qualifying income over £50,000.
- From 6 April 2027, the threshold will reduce to £30,000.
- From 6 April 2028, the threshold will further reduce to £20,000, as announced in the 2025 Spring Statement.

What is qualifying income?

Qualifying income refers to total gross income (before expenses) from self-employment and property (including both UK and overseas property income for UK residents). It excludes income from employment, partnership profits, dividends, and qualifying care receipts. For jointly owned property, only your share of the income is considered. If your accounting period is not 12 months, income will be time-apportioned on a just and reasonable basis.

What are the digital requirements?

If you fall within the scope of MTD for Income Tax, you must:

- Use compatible software to maintain and preserve digital records of your business or property income and expenses.
- Submit quarterly updates to HMRC for each business and property.
- Correct any errors or omissions in your digital records promptly.

The software must be capable of communicating with HMRC via its API platform.

Quarterly updates

Quarterly updates must be submitted for each business by the following deadlines:

- 7 August
- 7 November
- 7 February
- 7 May

You may opt to report on calendar quarters if preferred.

Are there any exemptions?

Yes, several exemptions apply:

- Income exemption If your qualifying income is below the relevant threshold (£50,000 for 2026–27, £30,000 for 2027–28, and £20,000 thereafter), you are not required to comply.
- Digital exclusion If you are unable to use digital tools due to age, disability, or location, you may apply for an exemption by notifying HMRC and receiving confirmation.
- Other exemptions These include trustees, non-resident companies, non-UK domiciled individuals (for their foreign businesses), those without a National Insurance number by the relevant date, and individuals providing qualifying care.

What about new businesses?

For businesses established on or after 6 April 2025, the digital start date will be 6 April in the tax year following the year in which the first Self-Assessment return is due.

Record-Keeping and corrections

You must maintain digital records that include financial details, item descriptions, amounts, and transaction dates. These records must be kept from your digital start date until the business ceases. Any errors or omissions should be corrected as soon as possible, with updates reflected in your next quarterly submission.

Summary

Making Tax Digital for Income Tax marks a significant shift in how self-employed individuals and landlords manage their tax affairs. If you are affected, it is important to prepare by ensuring you have suitable software and understand your new obligations.

If you have any questions or would like support in getting ready for MTD, please contact our team for expert advice.

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Future of Pension Salary Sacrifice

On 27 May 2025 HMRC published a research paper titled 'Understanding the attitudes and behaviours of employers towards salary sacrifice for pensions' ('arrangement'). The paper considers three scenarios where hypothetical cuts to pension tax and National Insurance (NI) reliefs are made, and the respondents were asked how this would affect their offering of the arrangement.

Bearing in mind that the research paper was commissioned in 2023, the question is given the timing of the release of the paper, should we expect changes to the use of pension salary sacrifice in this year's Autumn Statement?

What is salary sacrifice?

A salary sacrifice arrangement is an agreement to reduce an employee's entitlement to cash pay, usually in return for a non-cash benefit; in this case, the amount of employee's pension contributions.

Salary sacrifice survey findings

The field work was undertaken May-August 2023 and the sample consisted of 51 companies, 41 of which offered the arrangement and 10 did not.

Those who did offer the arrangement, the main findings were:

- most employees accepted the offer to participate in a pension salary sacrifice arrangement.
- the main motivation for offering was the employer and employee NI savings.
- most participants were not sure how the employer NI savings were used. Some did say they passed on their savings to enhance the employees' pension contributions.
- it was easy to administer.
- it was a good recruitment and retention tool.
- generally, employers had good understanding and found the concept easy to explain to their employees.

Contrast that with the 10 employers who did not offer the arrangement, their reasons were:

- additional administration.
- size of the business did not justify the additional administration.
- lack of knowledge.
- no request from employees to implement an arrangement.

Hypothetical cuts

The survey also presented three alternative hypothetical arrangements for participants to consider. Participants who offered the arrangement were represented with three hypothetical scenarios using a baseline arrangement of an employee earning £35,000 and who sacrifices 5% (£1,750) of their salary for an equivalent employer pension contribution. The employer contributes 3% (£1,050), so in an arrangement situation, the employer would contribute 8% in total (£2,800).

Scenario 1

Removal of the NI 'exemption' for both employers and employees resulting in the amount of NI being charged on the salary sacrificed.

Scenario 2

Removal of NI 'exemption' for both employers and employees as well as pension tax relief for the employee.

Scenario 3

Removing NI exemption on salary sacrificed above £2,000 per annum.

Feedback

- all three would affect staff morale.
- affect recruitment.
- disincentivise pension savings.
- not surprisingly, employers were most negative about the second option. The third option was most favoured.
- but some mentioned that scenario three would add a layer of complexity.
- some employers may eliminate offering the arrangement.
- some employers would pass on the additional costs to the customer so the prices would increase.

What does this mean for employers?

Most commentators consider the timing of the report is not coincidental and may point to Government's direction of travel.

If employers do not currently offer this arrangement, they should consider doing so now to help optimise savings and be in a position to benefit from any transitional provisions at some point in the future. Furthermore, once in place, it is our experience that a properly implemented arrangement will not require any significant work to ensure it operates effectively

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HMRC in Focus: Current Observations

Following the Spring Statement earlier this year and HMRC's intensified efforts to close the tax gap, there has been significant activity across all tax areas. We believe it is timely to share insights into some of HMRC's activities concerning income tax and capital gains tax (CGT).

HMRC now receives more information than ever before, thanks to its powerful Connect software. Connect analyses all information HMRC holds on its various databases, highlighting connections such as bank accounts, companies, properties, and online selling platforms linked to the taxpayer.

Due to limited resources, HMRC cannot open enquiries into all identified taxpayers. Therefore, HMRC is sending nudge letters to taxpayers, placing the burden on them and their advisors to review the taxpayer's affairs and liaise with HMRC accordingly.

We've seen HMRC targeting every aspect of income and gains, whether it be online marketing platforms like TikTok or Vinted, overseas income and gains, crypto assets like Bitcoin, or Investors' Relief.

HMRC is clamping down on any means of income or capital gains to close the tax gap. If you receive a nudge letter or enquiry, we recommend reaching out to your tax advisor. Nudge letters are not legislative, but it's important not to ignore them, even if HMRC has made an error. If a mistake has been made, HMRC has disclosure facilities available. By addressing these issues now, you'll avoid higher penalties later. It's in your best interest to submit a voluntary disclosure before receiving a HMRC enquiry or nudge letter to benefit from lower penalty rates.

It is worth mentioning that HMRC can ask for information to assess tax years where they have received data indicating that a taxpayer may not have reported all of their income and gains.

Regarding compliance activity, HMRC will be enforcing debt collection more rigorously than we have seen in a long time. If you have a tax debt, explore all means of paying it as soon as possible (note that the current HMRC interest rate is 8.25%, which is no longer cheap). If the only option is Time to Pay (TTP), prepare cash flow forecasts before contacting HMRC. For practical insight in approaching HMRC, speak to Danielle Ford head of our Tax Dispute Resolution (TDR) team. We're here to support you and guide you from receipt of an HMRC communication through to conclusion.

What next?

Should you have any queries or receive a HMRC communication please do not hesitate to contact your usual Haysmac contact or Danielle Ford.

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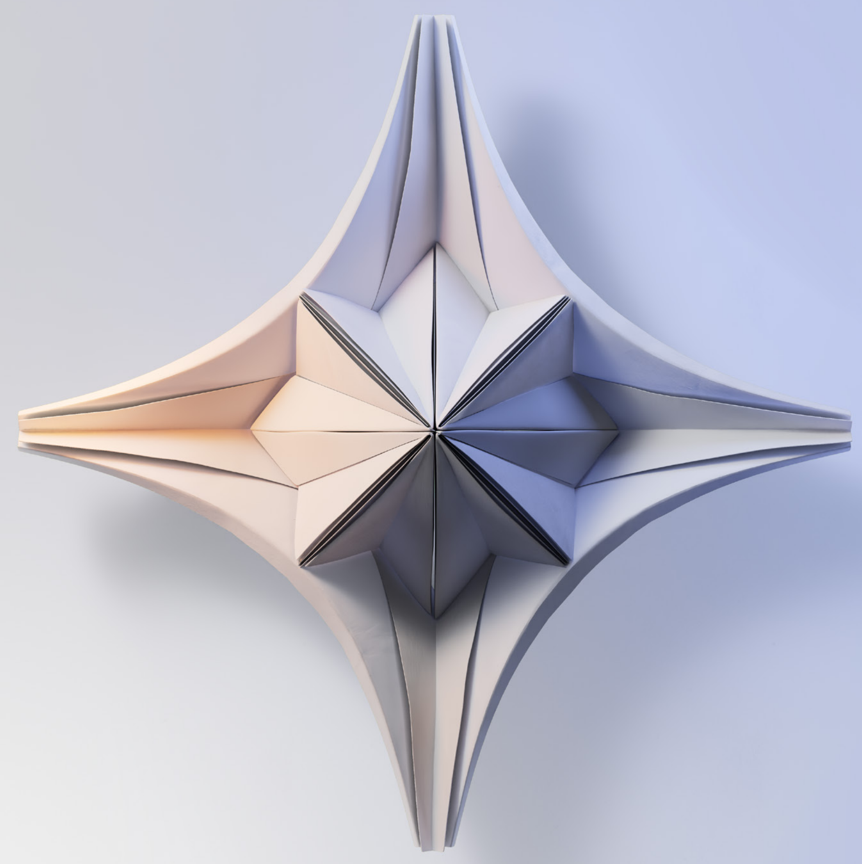

Fee Protection Service

We encourage our clients to subscribe to our Fee Protection Service (FPS) annually to safeguard against HMRC tax investigations and enquiries. This service covers our fees for assisting you with an HMRC enquiry or responding to a **"nudge letter" issued by HMRC.**

We have partnered with a market-leading provider, BSpoke Fee Protection, which has an excellent reputation within the accountancy profession, to offer you the best service possible.

HMRC enquiries have become more targeted and are conducted with an unprecedented level of detail and persistence.

Even if you have done nothing wrong, you may still be selected for a detailed review of your tax affairs, which could lead to an unnecessarily high tax bill if you are not protected. The cost of defending yourself professionally can be substantial; enquiries are taking longer, and the defence costs are increasing. Even if the enquiry results in no adjustments to your tax position, the cost of the defence can escalate. Whether it's a cross-tax enquiry or a technical challenge, our FPS package is designed to achieve the best possible result for you.

Our FPS package enables us to defend you in the unfortunate event of an enquiry without you having to worry about our fees. For an annual charge, you can rest assured that you are protected against the professional costs associated with an HMRC enquiry.

Please see our service summary for further details here.

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