Autumn 2026

Arts and Culture Briefing

HaysMac

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Welcome

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Welcome to the latest edition of our Arts and Culture Briefing created to help leaders, trustees and finance teams navigate the practical issues shaping the sector.

Across the following pages, our authors explore the financial, tax, employment, risk, and governance themes that matter to organisations delivering cultural, charitable and creative activity in a changing environment.

Our briefing begins with my article on SORP 2026, setting out what arts and culture finance leaders should be thinking about now as the new framework changes income recognition, lease accounting, reporting tiers and the expectations placed on Trustees' Annual Reports. This article is designed to move the conversation from awareness to action, helping organisations prepare before the new requirements become a year-end challenge.

Alice Palmer, Senior Manager and Sally Gatward, Manager, then consider Cultural Sector Tax Reliefs, looking at the opportunities available to theatres, orchestras, museums and galleries, alongside recent rule changes and areas of increasing HMRC focus. Alice also contributes a further article on international Gift Aid implications, offering practical insight for organisations with overseas donors, global fundraising activity or international charitable connections.

Employment and workforce compliance are also a key focus. Nick Bustin, Director and Head of Employment Tax, examines the risks around visa conditions, working hours and National Minimum Wage compliance, before turning to HMRC's phased introduction of mandatory payrolling for Benefits in Kind. Together, these articles highlight the importance of clear data, robust systems and early communication with employees and advisers.

Rakesh Vaitha, Director, brings the lens of resilience and risk management, exploring how arts and culture organisations can better understand critical suppliers, third-party dependencies, cyber exposure and continuity planning. His article reflects the reality that successful cultural delivery increasingly depends on strong governance, operational preparedness and well-managed external relationships.

This edition will also feature a VAT insight from Phil Salmon, examining the Capital Goods Scheme and the long-term VAT implications of major capital projects. His article highlights the importance of understanding ongoing compliance obligations, particularly where changes in use can trigger significant adjustments years after an investment is completed.

Taken together, the articles provide a practical guide for arts and culture organisations looking ahead: how to respond to technical change, protect income, manage people and suppliers, and explain financial and operational decisions clearly to trustees, funders, regulators and stakeholders. I hope you find this edition informative as it offers useful insight, timely prompts for discussion, and practical actions to support confident decision-making in the months ahead.

If any of the topics raise questions for your organisation, please do get in touch with the article authors, me, or your usual contact. We would be delighted to discuss how these developments may affect your organisation and look forward to sharing further insights with you in our next edition.

SORP 2026: What arts and culture finance leaders should do now

What will SORP 2026 mean in practice for arts and culture charities, and how different could 2026 accounts look from those prepared today? The new framework applies to accounting periods beginning on or after 1 January 2026, with calendar year-end charities preparing their first accounts under the new rules for the year ending 31 December 2026. **That may still feel some distance away, but the practical work should start now.**

The new SORP changes how some income is recognised, brings most leases onto the balance sheet, introduces a three-tier reporting framework and raises expectations for the Trustees' Annual Report. As a result, many 2026 accounts will look different from 2025, even where the charity's underlying financial position has not changed.

Changes arising from the new SORP could create apparent deficits, reduce reported reserves or affect covenant calculations, so it is important that the impacts are understood and explained early.

A new three-tier framework

SORP 2026 introduces reporting tiers based on gross income: Tier 1 for charities up to £500,000, Tier 2 for those above £500,000 and up to £15m, and Tier 3 for charities above £15m. The higher the tier, the more extensive the financial and narrative reporting requirements.

Charities will need to assess their tier each year. A one-off spike in income could therefore increase reporting obligations, and larger charities should not assume that prior-year presentation will remain appropriate. This is because there is no equivalent of the Companies Act provisions which allow a year's grace when a threshold is breached.

There is, however, some proportionality. Charities with income below £15m will generally no longer be required by the SORP to prepare a cash flow statement. Charitable companies will need to be aware that only small companies are able to claim this exemption from an FRS102 perspective, so the £15m limit will not apply in many cases.

Income recognition: more judgement, more evidence

The most operationally significant change for many will be income recognition. SORP 2026 draws a clearer distinction between exchange transactions and non-exchange transactions.

- Exchange income is earned in return for goods or services under a contract and is subject to a five-step revenue recognition model.
- Non-exchange income, such as donations and many grants, is recognised under the performance model, with restrictions and conditions considered carefully.

For exchange transactions, charities must identify the contract, the performance obligations, the transaction price and its allocation, then recognise income as those obligations are satisfied.

In practice, this could defer income from commissioned services, membership arrangements, training, trading activities or some restricted funding until delivery milestones are met. In other cases, income may be recognised earlier. The key action is to map significant income streams and document the judgement applied to each.

For arts and culture organisations that have contractual arrangements for performances, or bought in productions or touring, the precise terms, conditions and deliverables must be reviewed for each contract to identify whether each element of the contract is delivered at a point in time or over time, as this will determine the appropriate accounting treatment.

For non-exchange transactions, there is a move away from the entitlement criteria toward considering performance conditions. In some cases, this will lead to a different pattern of income recognition over the life of an agreement.

Transition will be a policy decision. There is an option to restate comparatives, subject to some practical expedients. There is also an option to present the adjustment as an opening adjustment to reflect the impact of the changes on the opening position. The option taken is likely to depend on the magnitude of the impact for each individual charity, although we believe most will take the view that the opening balance position approach rather than full retrospective approach is to be more popular. However, we expect additional narrative disclosure will be necessary to ensure that the readers of the accounts understand the impact of any changes, particularly those that are material, to help their understanding of the revised financial position.

Lease accounting: a visible balance sheet impact

The new lease requirements will be highly visible for charities with property, vehicle or equipment leases. Most former operating leases (where the charge was made straight to P and L on each payment and only the future payments under the lease were disclosed in the accounts but not provided for) will be brought onto the balance sheet.

Charities will recognise a right-of-use asset and a corresponding lease liability, measured by reference to future lease payments. The Statement of Financial Activities will also change, with depreciation and interest replacing a single lease rental expense for many arrangements. The changes to the Statement of Financial Activities will also change the pattern of expenditure recognition, with a higher charge in the earlier years of a lease due to the unwinding of the interest charge.

Short-term leases (usually those with a minimum period of twelve months or less) and leases for low-value-assets may qualify for exemptions. Peppercorn or below-market leases need separate consideration, as the arrangement may include both a lease and a donated element. Arts and Culture organisations should think carefully about storage facilities and rehearsal space hire arrangements in particular.

Transition will be dealt with through an opening reserves adjustment, without restating comparatives. Finance teams should therefore prepare trustees, lenders and other stakeholders for accounts that may not be directly comparable with the prior year. Unlike the changes to income, there is no option to fully restate comparatives in relation to the changes to leases.

New lease liabilities do not necessarily signal weaker finances. They reflect a different accounting presentation, but may still affect perceptions, reserves narratives and covenant tests. It is vital that trustees are aware of the impact well in advance of the year end date in case other discussions need to take place with banks, donors and/or other stakeholders.

The Trustees' Annual Report: higher expectations

SORP 2026 also raises the bar for narrative reporting. Trustees will need to explain more clearly how the charity's activities deliver its purposes, how impact is assessed, how reserves are managed and how key risks are addressed.

For larger charities with income over £15m, the report will require greater detail on environmental, social and governance matters. This should be treated as more than compliance; a clear report can help donors, funders and beneficiaries understand the quality of stewardship beyond the numbers.

Practical priorities for finance teams

The transition should be managed as a project rather than a year-end exercise. The immediate priorities are:

- **Reviewing income streams:** Classify material income as exchange or non-exchange and document the recognition basis. Identify agreements with significant performance conditions, and ensure the mechanisms are in place to capture progress against performance conditions.
- **Building a lease register:** Capture lease terms, payments, options and exemptions, then model the effect on assets, liabilities and covenants.
- **Confirming the reporting tier:** Assess current and forecast income, including one-off items that may change the tier. For charities that are likely to sit just below a tier threshold, consider whether you will choose to report based on the higher tier to avoid changes later on.
- **Briefing trustees early:** Explain the likely impact on reserves, reported results and the balance sheet before the accounts are drafted.
- **Engaging auditors:** Agree key judgements, transition entries and disclosure expectations in advance.
- **Engaging other stakeholders:** Consider other stakeholders who will need engaging earlier. For example, charities with significant borrowings should consider the impact on loan covenants and the need to discuss potential issues with their bankers.
- **Checking systems and data:** Ensure finance systems can support lease schedules, revenue assessments and the additional disclosure requirements.

To aid clients with the transition, we have run a series of webinars focusing on the key areas. We are also due to run a specific session on SORP for arts and culture organisations on 21 September. Further details are available on our website.

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Cultural Sector Tax Reliefs: Opportunities, recent changes and areas of HMRC focus

For many theatres, orchestras, museums and galleries, Cultural Sector Tax Reliefs continue to provide an important source of funding at a time of considerable financial pressure and uncertainty.

Since Theatre Tax Relief was first introduced in 2014, followed by Orchestra Tax Relief in 2016 and Museums and Galleries Exhibition Tax Relief in 2017, over £1.2bn has been paid out, encouraging arts organisations to develop and release new works and supporting their creative efforts with unrestricted funding.

The reliefs have undergone substantial changes in recent years, particularly during and following the pandemic, but now appear to have reached a 'steady state', though of course a brand-new government cabinet increases the chances of further modifications.

Though many of the headline changes now feel well established, they are worth revisiting since claims can be made up to two years (and in some cases even longer) after the relevant accounting period and HMRC's approach to reviewing claims continues to evolve.

A reminder of the three Cultural Sector Tax Reliefs

The three reliefs, including a summary of the main qualifying criteria are:

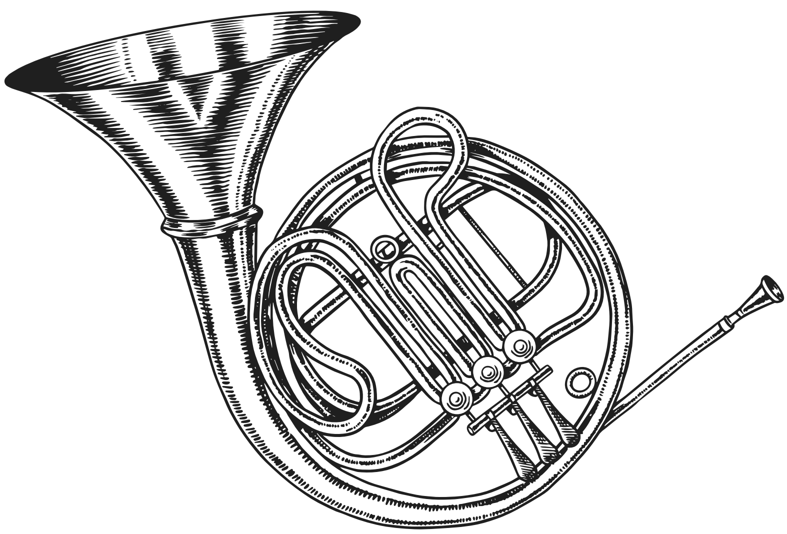
- Theatre Tax Relief (TTR) for qualifying theatrical productions
- Orchestra Tax Relief (OTR) for qualifying orchestral concerts
- Museums and Galleries Exhibition Tax Relief (MGETR) for qualifying public exhibitions

TTR

Key activity criteria:

- A play, opera, musical or other dramatic piece that depicts a story (or number of related/unrelated stories), where the performances are live and the performers give their performances through the playing of roles, or
- A ballet
- Commercial purpose condition must be met for each production (can include providing for educational purposes of the audience)

Entity level criteria: Within the charge to corporation tax – charitable or commercial



OTR

Key activity criteria:

- Instrumental ensembles playing live concerts, without electronic amplification of the instruments
- With the main focus of the concert being the instrumentalists, numbering at least 12.
- Commercial purpose condition applies (can include providing for educational purposes of the audience), though there is scope to include some non-qualifying concerts by making a concert series election.

Entity level criteria: Within the charge to corporation tax – charitable or commercial

MGETR

Key activity criteria:

- A curated public display of an organised collection of objects or works which are considered to be of scientific, historic, artistic or cultural interest.
- A single object can also constitute an exhibition.

Entity level criteria: Charity within the charge to corporation tax (or wholly owned subsidiary of) or subsidiary company wholly owned by a local authority; must maintain a museum or gallery

In all cases, the entity must have made effective contributions towards the creative, technical and artistic aspects of the production, concert or exhibition (unless it is simply a receiving venue for an exhibition for MGETR), and have sufficient responsibilities towards producing, running and closing the activity. Particular care should be taken where a subsidiary is claiming, to make sure its direct involvement is substantial enough for it to make a robust claim.

Any entity wishing to make a claim for one or more of these reliefs must be within the charge to Corporation Tax (CT). However, this does not mean you need to have a CT liability, nor be a company registered with Companies House, so don't assume you cannot qualify if you have an unusual constitution.

The reliefs remain more generous than before the pandemic

Perhaps the most significant recent development is that the enhanced rates introduced as a temporary measure during the pandemic have largely been retained on a permanent basis, and the sunset clause for MGETR, which would have permanently ended the relief on 31 March 2026, has been removed. While rates reduced slightly from April 2025, they remain substantially more generous than the pre-pandemic regime.

From 1 April 2025, the reliefs can still be worth up to the following percentage of qualifying core expenditure (generally expenditure on producing and closing the production/exhibition or concert, but not the running costs):

- 36% for touring theatre productions and exhibitions (20%/40%)
- 32% for non-touring theatre productions and exhibitions
- 36% for qualifying orchestral concerts (20% / 40%)

Pre-pandemic and recent temporary increased rates are shown in brackets, respectively. Please note these percentages are lower than the headline rates, as relief is capped at 80% of core expenditure.

The decision to remove the sunset clause from MGETR was particularly welcome, providing greater certainty for those planning major exhibitions or new permanent galleries many years in advance. Disappointingly, however, the cap per exhibition has remained at £80k/£100k for non-touring/touring exhibitions, despite significant inflation since its inception. As a result, particularly with new permanent galleries, it is worthwhile properly considering how many separate exhibition trades can be claimed. ~Don't just assume that one physical room equates to one exhibition trade as it can be more nuanced than this.

Important rule changes

Alongside the changes to rates, a number of technical changes have been introduced.

One of the most important was the replacement of the previous EEA expenditure requirement with a UK expenditure requirement from April 2024. Subject to a one-year transitional period for pre-existing trades, the reliefs are now designed to focus support on activity taking place within the UK. This may affect the value of future claims, depending on the nature of an organisation's activities and particularly where substantial work is undertaken elsewhere in Europe.

There have also been changes to connected-party expenditure rules and, perhaps most noticeably, the introduction of mandatory Additional Information Forms (AIFs). Since April 2024, organisations must submit an AIF (including attached detailed workings), before or on the same day as their CT return containing the claim.

While these forms have increased the administrative burden, they also provide HMRC with greater visibility over claims and appear to be feeding into a more targeted approach to enquiries.

Below, we briefly summarise the main changes, starting with the increased rates during the pandemic:

Date effective from	Changes
27 October 2021	Temporary higher rates introduced
1 April 2022	Tightening of eigibility criteria for productions, exhibitions and concerts
1 April 2024	✦ EEA expenditure rules replacced with UK-only rules (subject to transitional period) ✦ Potential restrictions to connected party expenditure ✦ Futher tightening of eligibility criteria ✦ AIF must be submitted ✦ Relaxation of concert series election requirements
1 April 2025	✦ EEA expenditure transitional period ends ✦ New permanent rates come into effect
6 April 2026	Supplementary return pages (CT600P) now required
Continual changes	Adjustments to the contents/requirements of the AIF

Increased HMRC scrutiny

Since the introduction of the AIF, the sector has observed a significant increase in formal HMRC enquiries and informal requests for further information, indicating a change in approach to the processing of claims. Claims are also taking longer to be processed, which is important to factor in from a cash-flow perspective.

This does not necessarily indicate a change in policy towards the reliefs. Rather, HMRC appears to be using the additional information provided to identify claims it considers higher risk and to focus its compliance activity accordingly.

As a result, organisations should ensure they retain clear documentation demonstrating why a production, exhibition or concert qualifies for relief and how the claim has been calculated.

We also strongly recommend considering whether additional disclosures should be made (beyond the existing requirements), to help protect against extended enquiry windows. Usually, HMRC only has one year to open an enquiry, but without adequate disclosures, this can rise to six years if HMRC decides there has been 'careless' behaviour or 20 years for any deliberate inaccuracies.

Taking professional advice can therefore be invaluable both before and after submission of a claim.

Particular areas attracting HMRC attention

Children's exhibitions

One area where claims have come under scrutiny is children's exhibitions. HMRC has questioned whether some interactive exhibitions are genuinely curated exhibitions or whether they are closer to play spaces.

Though this has largely been successfully defended, in practice, organisations running children's exhibitions should retain evidence of the curation process, including planning documents, exhibition objectives and any supporting material from funders or external bodies that reviewed the exhibition content.

Dance

Dance organisations should also be aware of HMRC's focus on whether productions meet the definition of a qualifying theatrical production.

Questions frequently arise around:

- Whether a production is primarily a training production (in the case of dance schools)
- Whether performances tell a story or number of stories
- Whether performers are playing identifiable roles
- Whether productions can qualify as ballet (in the absence of any storyline)

Organisations may wish to document storylines, character roles, production notes and choreographic intentions from the outset, rather than attempting to reconstruct evidence later in the event of an enquiry.

Orchestra concert series elections

For organisations claiming Orchestra Tax Relief, HMRC has recently challenged concert series elections based on the proportion of qualifying to non-qualifying orchestral concerts. Legislation and guidance simply state that 'all or a high proportion' must be qualifying concerts and there is no definitive definition of high proportion. Previously it was understood that 75%+ should be accepted, but HMRC are indicating they interpret it to be significantly higher.

Given the lack of guidance in this area, organisations should carefully review any series elections and ensure they can support the basis on which qualifying and non-qualifying concerts have been included, or seek advanced comfort from HMRC.

Unpaid creditors

Another recurring area of enquiry concerns expenditure included within claims that had not been paid within the relevant statutory timeframe of four months. HMRC frequently requests supporting schedules and evidence of payment when reviewing claims.

Maintaining detailed records of payment dates for significant costs can help reduce both the risk of errors and the burden of responding to a future enquiry.

Looking ahead

The Cultural Sector Tax Reliefs remain one of the most valuable forms of financial support available to qualifying arts and cultural organisations. Enhanced rates have been retained, Museums and Galleries Exhibition Tax Relief is now permanent, and substantial cash benefits continue to be available.

At the same time, the claims process has become more complex, and HMRC scrutiny has increased. As a result, organisations should not only focus on maximising eligible expenditure but also on ensuring they retain the evidence needed to support their claims.

For many organisations, a proactive review of current and recent productions, exhibitions and concerts could identify valuable opportunities while mitigating potential challenges further down the line.

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Managing risks around visa conditions and working hours

In recent months we have seen the authorities increase their oversight of visa-related employment and general working conditions. Where organisations have been found to have fallen short of the required regulations, fines can be significant, and we have seen these being issued in excess of £20k per employee. Now is the time to review your internal procedures and ensure that you have robust systems in place to monitor these arrangements. Within this insight, we consider two areas which can present significant challenges to anyone engaging an employee on a work visa.

Employers have a duty under UK Home Office rules to ensure that all workers have the appropriate immigration status and are working in line with their visa conditions. Failure to comply can result in severe consequences, including civil penalties, reputational damage, loss of sponsorship licence and even criminal sanctions in certain cases. Two common areas of risk are:

- **Workers who have exceeded the validity of their visa** (overstayers).
- **Workers who are working longer hours than permitted under their visa** (hours worked in excess of those specified by your sponsor in your Certificate of Sponsorship (CoS)).

Key considerations for organisations

- **Right-to-work checks:** Employers must carry out right-to-work checks before employment begins and at prescribed intervals. These checks need to be documented, stored securely and updated when visas are due to expire.
- **Visa expiry monitoring:** Organisations should have a robust system for tracking visa expiry dates and renewal requirements, with reminders in advance of critical dates.
- **Working hours restrictions:** Where employees are subject to capped working hours, employers must implement systems to track actual hours worked across all roles within the business (and, where possible, across group entities). This includes monitoring overtime and casual hours.
- **Sponsor licence duties:** Employers holding a sponsor licence have an additional duty to report changes in employees' circumstances (e.g., role, hours, immigration status) within strict Home Office deadlines.
- **Data privacy:** While monitoring immigration status and working hours, organisations must ensure compliance with data protection requirements, particularly when storing employee immigration documents.

Processes you should have in place

- **Centralised compliance register:** Maintain a central record of all employees' immigration status, visa conditions, expiry dates and permitted working hours.
- **Automated alerts:** Use HR or compliance software to flag upcoming visa expiries or breaches in working hours.
- **Manager training:** Line managers should be trained to understand the restrictions on working hours and visa compliance, as they are often closest to monitoring daily activity.
- **Periodic audits:** Conduct regular internal audits to confirm compliance with immigration requirements, including sampling timesheets against visa conditions.
- **Escalation procedures:** Establish a clear process to escalate potential breaches quickly, ensuring that remedial action is taken and reported to the Home Office where required. Engagement with workers: Proactively communicate with employees about their obligations to inform HR of changes in status, renewals or potential breaches.

National minimum wage

The second area is National Minimum or Living Wage, where the level of complexity within the regulations can also have significant consequences for employers. Again, failure to fully comply with the regulations can result in significant financial implications including the need to repay any underpayment of earnings, exposure to penalties and reputational risk with the possibility of being 'named and shamed'.

Below is a summary of the key considerations that you will need to consider for your organisation.

Key considerations for organisations

- **Working time accuracy:** Organisations must ensure all hours worked are recorded, including travel time whilst attending events held 'offsite'. This can raise specific questions from Fair Work Agency such as: How accurate are your working time processes? Do they capture all the hours that are being worked? Do they consider special working arrangements?
- **Pay calculations:** Organisations need to calculate the hours worked as per the pay reference period, which could be weekly, four weekly or monthly and not on a cumulative basis. Are you excluding bonuses and overtime premiums from the minimum pay calculations? Not accurately monitoring the hours worked in a particular pay period can lead to issues of non-compliance with the visa regulations noted above.
- **Deductions from pay:** It is not uncommon for deductions to be made from an employee's pay and where these are made, whether it is from gross or net pay, they will have an impact on the pay calculation. Any deductions made by the employer, whether it is from gross or net pay must not bring the employee's pay below the NMW limits.
- **Record keeping:** Employers are required to maintain detailed pay and hours worked records for all employees for at least the past six years. Is this something you are doing? Do you regularly review compliance with the NMW regulations?
- **Policies and contracts:** It is essential that your employment contracts clearly define working hours, how breaks are treated, as well as the expectations of both you, as the employer, and your employees. Are policies in place for travel time, sleep-ins and training, and changes of working arrangements? What information is provided to staff, regardless of whether they are full, part-time or employed via a zero-hours contract?

Action points and where we can assist

The FWA are carrying out NMW reviews which, prior to April 2026, had been carried out by HMRC. If FWA should undertake an NMW review, you will need to ensure that you can provide answers to the questions/issues set out above. So, what can you do now?

- **Proactive risk management:** To avoid falling foul of immigration rules, organisations should move beyond reactive compliance and adopt a proactive, risk-based approach. We can help review your current risk management processes and help you to improve management and governance in this area.
- **Risk assessments:** Incorporate immigration compliance into wider risk assessments, particularly in industries with high reliance on overseas workers. Consider carrying out checks on your current data and processes to help you manage compliance.
- **Scenario planning:** Consider potential impacts of workers overstaying or exceeding visa conditions on operations and client service delivery. What are your contingency plans and levers that you can apply to help business continuity?
- **Governance oversight:** Ensure immigration compliance is regularly reported to senior leadership, with clear accountability for monitoring.
- **NMW monitoring:** Review your systems which monitor the actual hours worked and calibrate these against the employees' hourly rates of pay. Carry out spot checks on your data to help ensure your continued compliance with the regulations and identify any gaps in your systems.
- **Record keeping:** Ensure you are reviewing employees' pay and deductions as part of your monthly payroll processing.
- **Policies and contracts:** You need to ensure these are regularly reviewed and updated. We are able to review and provide comment on the current policies and contracts to enhance your documentation.
- **Continuous improvement:** Review lessons learned from any breaches or near misses, and update processes accordingly.

Summary

All organisations face considerable challenges, especially in terms of staff resourcing. However, it is important to ensure your compliance obligations, whether they be to the Home Office or the Fair Work Agency, are fully maintained.

If you need assistance in reviewing any of these areas, please contact Rakesh Vaitha, Risk Assurance Director, or Nick Bustin, Director, Head of Employment Tax.

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HMRC confirms phased introduction of mandatory payrolling for Benefits in Kind

HMRC has confirmed that the move to mandatory payrolling of Benefits in Kind (BiKs) will be introduced on a phased basis, providing employers with additional time to prepare for one of the most significant changes to employment tax reporting in recent years. The revised timetable follows extensive engagement with employers, advisers, payroll providers and software developers, who highlighted the practical challenges associated with moving from the long-established P11D reporting regime to a real-time payroll reporting model.

Whilst many employers already voluntarily payroll certain benefits, mandatory payrolling will ultimately become the default method of reporting most taxable benefits and expenses. The changes will affect payroll processes, employee communications, benefit administration and employment tax compliance, making early planning essential.

A significant shift in benefits reporting

Under the current rules, most taxable benefits are reported to HMRC after the end of the tax year using forms P11D, with employers paying Class 1A National Insurance contributions (NICs) through a separate annual process. Employees are often subject to Income Tax on benefits through adjustments to their PAYE tax code, which can create delays and discrepancies between the time a benefit is received and the time tax is collected.

Mandatory payrolling represents a move towards a more real-time approach. Taxable benefits will generally be processed through payroll alongside salary and wages, meaning Income Tax and Class 1A NIC liabilities will be calculated and reported during the tax year rather than after it has ended.

HMRC's objective is to improve the accuracy and timeliness of benefit reporting, reduce the need for end-of-year reconciliations, and align the taxation of benefits more closely with the period in which they are provided.

Phased implementation timeline

Following stakeholder feedback, HMRC has adopted a two-stage implementation approach.

Phase 1: From 6 April 2027

The first phase of mandatory payrolling will apply to a relatively narrow range of commonly provided benefits:

- Company cars
- Car fuel benefits
- Vans
- Van fuel benefits
- Employer-provided medical benefits

From 6 April 2027, employers providing these benefits will generally be required to report both the taxable value of the benefit and the associated Income Tax and Class 1A NIC through payroll in real time.

The inclusion of company cars and private medical insurance in the first phase is significant, as these are among the most frequently provided taxable benefits in the UK workforce. Many employers already voluntarily payroll these benefits, but those continuing to rely on P11D reporting will need to adapt their processes ahead of the implementation date.

Phase 2: From 6 April 2028

A year later, from 6 April 2028, mandatory payrolling will extend to most remaining taxable benefits and expenses.

However, HMRC has confirmed that two categories of benefit will remain outside the mandatory regime:

- Employment-related loans
- Living accommodation

Instead, employers will retain the option to payroll these benefits voluntarily if they wish.

These benefits often require more complex valuations that can fluctuate during the tax year, which is likely to be one reason why HMRC has decided not to make them subject to mandatory real-time reporting at this stage.

Additional technical guidance will be published by HMRC ahead of April 2027.

Why the delay matters

The revised timetable should be welcomed by many employers.

Although mandatory payrolling has been anticipated for some time, implementation presents several operational challenges. Calculating taxable benefits accurately throughout the year requires reliable data flows between HR, payroll, benefits providers and finance teams. For some organisations this information is currently collated only at year end for P11D purposes.

Employers have therefore raised concerns regarding:

- Payroll system readiness
- Integration of benefit data from multiple sources
- Data quality and governance
- Employee communications
- Reconciliation processes
- Management of benefit changes during the tax year

The additional implementation period provides employers with valuable time to review existing arrangements, engage with software providers and test new processes before the rules become mandatory.

Impact on employees

Although the reforms are primarily directed at employers, employees will also notice changes.

Under mandatory payrolling, tax on benefits will generally be collected throughout the year rather than through adjustments to PAYE tax codes in a later period. This should provide greater transparency and may reduce the likelihood of unexpected tax underpayments or overpayments arising from coding adjustments.

However, employees may initially perceive that more tax is being deducted from their pay because the taxation of benefits will become more visible within payroll calculations.

Effective communication will therefore be important. Employers should consider explaining:

- How payrolling works
- Which benefits are affected
- Why tax deductions may differ from previous years
- How the changes impact payslips and tax codes
- The benefits of real-time tax collection

Providing clear guidance early can help minimise confusion and employee queries during the transition period.

Key considerations for employers

While April 2027 may appear some distance away, preparation work should begin well in advance.

Review existing benefits

Employers should undertake a detailed review of all benefits currently provided to employees and directors. This includes identifying which benefits will fall within the first implementation phase and which will be affected from April 2028.

Many organisations provide benefits through multiple channels, creating a risk that taxable benefits are not consistently captured for payroll purposes.

Assess payroll capability

Payroll systems will need to accommodate the calculation, reporting and processing of taxable benefits in real time.

This may require:

- Software upgrades
- Additional reporting functionality
- Enhanced interfaces with HR and benefits platforms
- New controls and reconciliation procedures

Employers should engage with payroll software providers and outsourced payroll partners as early as possible to understand system readiness and implementation timelines.

Strengthen internal processes

Real-time reporting will place greater emphasis on the timely exchange of information between departments.

For example, changes involving company cars, medical cover, employee contributions and benefit eligibility may need to be reported more quickly than under the current annual reporting model.

Organisations should review ownership and responsibility for benefit reporting to ensure data is accurate and submitted on time.

Looking ahead

Mandatory payrolling is not simply a change to tax reporting. It represents a broader shift towards real-time employment tax compliance and greater integration between payroll, HR and benefits administration.

Although HMRC's revised timetable provides welcome breathing space, employers should not view the delay as a reason to defer planning. Organisations that begin preparing now are likely to experience a smoother transition, reduce compliance risks and minimise disruption for employees.

With the first phase commencing on 6 April 2027 and the second phase following on 6 April 2028, employers have a valuable opportunity to review benefit arrangements, assess payroll readiness and develop a robust implementation strategy.

Early engagement with advisers, payroll providers and internal teams will be essential to ensure compliance and deliver a successful transition to the new regime.

If you would like to discuss how mandatory payrolling may affect your organisation, please contact the HaysMac Employment Tax team.

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LE CYGNE

Business resilience and third-party risk management

Arts and culture organisations operate in an increasingly complex and interconnected risk environment which include external dependencies when managing operations. Museums, galleries, theatres, performing arts and creative organisations are required to balance artistic and cultural objectives with financial sustainability, audience expectations and regulatory requirements. At the same time, many organisations rely on specialist suppliers, technology providers, contractors, partners and outsourced services to deliver exhibitions, performances, events and digital services.

A careful and thoughtful approach to business resilience and third-party risk management is therefore essential to maintain the continuity of public-facing services, safeguarding data and supporting long-term financial sustainability.

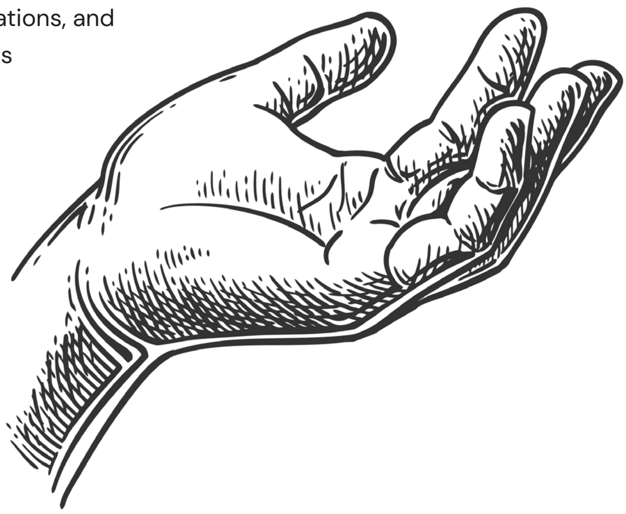
Current risk landscape

Arts and culture organisations face a distinctive combination of financial, operational and reputational pressures. There are several aspects that affect the financial resilience of the organisation, from funding uncertainty through to changes in audience behaviour, rising operating costs and dependence on grants funding, and the challenge to broaden income streams and being less reliant on grant funding. For organisations operating venues or delivering exhibitions, performances and events, disruption can have an immediate impact on income and key stakeholders.

This is where digital transformation and outsourcing have created additional dependencies. Organisations may rely on third parties for several aspects of their operations. This typically would include:

- Ticketing, booking, membership and customer relationship management platforms
- Website hosting, cloud infrastructure, digital content and streaming services
- Payment processing and e-commerce services
- Exhibition and event management services
- Security, facilities management, catering and venue operations
- Storage, transportation and specialist handling of items
- IT support, cybersecurity, data processing and other professional services
- Marketing, communications, and digital media platforms

These relationships can provide specialist expertise, but they also extend the organisation's risk exposure beyond its direct operational control. A failure of a critical supplier can lead to other failings of the organisation's own service. Cyber threats are particularly relevant where organisations hold personal information about audiences, members and staff, as well as commercially sensitive information.



Why third-party risk matters

Not fully understanding and managing third-party risk can have significant consequences for organisations operating in the arts and culture sector. There are comment threats that should be considered, which include:

- Service disruption: Failure of ticketing, payment, digital, venue or production systems can have a direct impact audience experience and income.
- Financial impact: Disruption may result in lost ticket sales, refunds, additional production costs, or increased insurance and recovery costs.
- Loss or damage to cultural assets: Failures involving transportation, storage, security or specialist contractors can expose collections, artworks and other cultural assets to loss or damage.
- Cyber and data breach fallout: Compromise of data, or theft of intellectual property and digital content, can result in legal, regulatory and reputational consequences.
- Reputational damage: Poor management of a major disruption can quickly undermine trust and confidence.
- Dependency and concentration risk: Excessive reliance on a single third-party provider can create a significant single point of failure.

These impacts can extend beyond individual supplier relationships and the organisation's ability to achieve its overall strategic objectives. The Beacon CRM cybersecurity incident is a textbook example of a third-party supply chain risk which impacted over 1,000 charities and not-for profit organisations simultaneously.

Approaching resilience and third-party risk

Management should treat business resilience and third-party risk management as integrated strategic priorities rather than reactive or compliance-driven actions. A practical framework should consider the following:

- Map critical services and suppliers
  - Maintain an inventory of third-party providers, including the services they deliver and their access to systems, data, venues, collections or operations.
  - Identify suppliers that underpin critical public facing services.
  - Identify single points of failure and dependencies, particularly where there is limited alternative provision or specialist expertise.
  - Categorise suppliers by risk type, such as cyber, operational, financial, data protection and business continuity risk.
- Perform risk assessments
  - Assess the likelihood and impact of risks associated with critical suppliers.
  - Incorporate material supplier risks and dependencies into the organisational risk register and business continuity framework.
  - Consider various scenarios when thinking about continuity: for example, ticketing or payment platform failure, cyber incidents, supplier insolvency, loss of a specialist contractor, etc.
- Strengthen contracts and controls
  - Document and communicate clear expectations around service levels, resilience, information security, data protection and incident management within contracts.
  - Include appropriate provisions covering incident notification, business continuity and disaster recovery.
  - Where appropriate, establish a due diligence checklist over arrangements in place over key supplier controls.

- Integrate with business continuity planning
  - Incorporate third-party failure scenarios into business continuity and disaster recovery plans.
  - Carry out test response and recovery strategies through simulations and tabletop exercises involving internal teams and, where appropriate, critical suppliers.
- Monitor, review and report
  - Have arrangements in place to monitor critical supplier performance using appropriate KPIs, service-level measures, incidents and regular relationship reviews.
  - Perform financial due diligence for third party providers to ensure they are financially sustainable.
  - Provide structured reporting on material third-party risks and dependencies to senior management and the Board.

Effective risk management should be embedded within governance frameworks and inform strategic decision-making. For arts and culture organisations, this means considering not only whether a supplier can continue to provide a service, but also what the failure of that service would mean for key stakeholders, income, reputation and the organisation's mission.

Taking practical steps to assess and improve maturity

To strengthen business resilience and third-party risk management, leadership teams should take practical steps and consider the follow actions:

- Risk maturity assessment: Use a structured assessment to benchmark governance, risk management, business continuity, incident response and third-party oversight against leading practices.
- Critical supplier review: Identify the suppliers and dependencies whose failure would materially affect operations, stakeholders, income or reputation.
- Scenario testing: Carry out regular exercises simulating supplier outages, cyber incidents, venue disruption, technology failure or loss of specialist capability.
- Governance oversight: Establish formal reporting that provides the Board and senior management with visibility of critical dependencies, resilience gaps, incidents and remediation actions.
- Contract and exit readiness: Review whether contracts provide adequate protection for critical suppliers.
- Training and awareness: Provide targeted training for internal stakeholders to build a resilient and risk-aware culture.

The objective is not to eliminate reliance on third parties but instead to understand and appreciate dependencies existing, determine which relationships are critical, and ensure that appropriate controls and contingency arrangements are in place. This enables organisations to remain resilient while continuing to innovate, collaborate and deliver their cultural mission.

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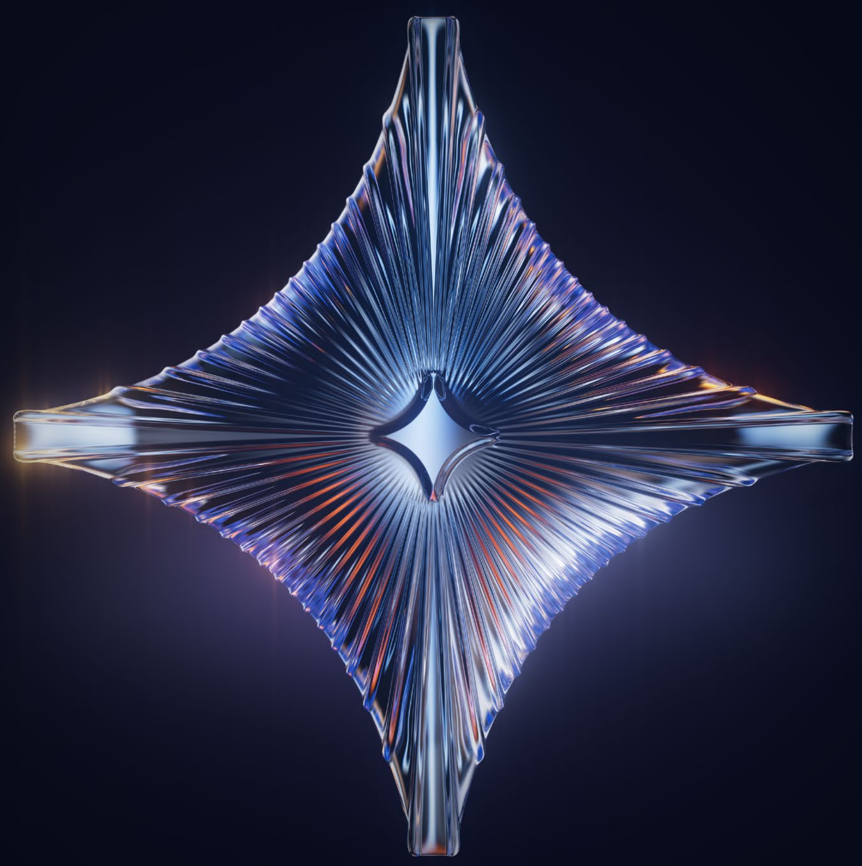

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VAT – The Capital Goods Scheme

A fundamental principle of VAT is that VAT on costs can only be recovered when the relevant costs are used in making taxable supplies. It cannot be recovered where the costs are used in making exempt supplies. This is the principle which underpins partial exemption.

With most costs, how they are going to be used is a one-off decision made in the return period in which the costs are incurred and attributed to their intended use, and the item which has been purchased is then deemed to have been consumed for VAT purposes even if it is still being used two or three years later.

This initial recovery is revisited at the end of the VAT year to iron out any seasonal fluctuations. Think, for example, of a cost used in making both taxable and exempt supplies which is incurred in a period where there is a high level of exempt income, such as the annual renewal of subscriptions to certain membership bodies. In that period, the partial exemption calculation would show the cost to be used largely for making exempt supplies, but over the year as a whole, it would not be. The annual adjustment calculation smooths out that distortion.

Certain capital costs, though, might be used for making a variety of different supplies over their lifespan and the Capital Goods Scheme (CGS) is the only way in which the VAT system recognises these changes in use.

The CGS has always been limited and only applies to certain types of capital expenditure. Prior to 29 July 2026, it included single items of computer equipment, land, buildings, civil engineering and aircraft ships, as well as boats and other vessels. In all cases, the CGS only applied where the capital expenditure was at or above a certain value.

From 29 July onwards (and don't ask me why a date was chosen that was not the start or end of a month), computers ceased to come under the CGS. This article will ignore ships and aircraft as not being relevant to the Arts & Culture sector and will focus on buildings.

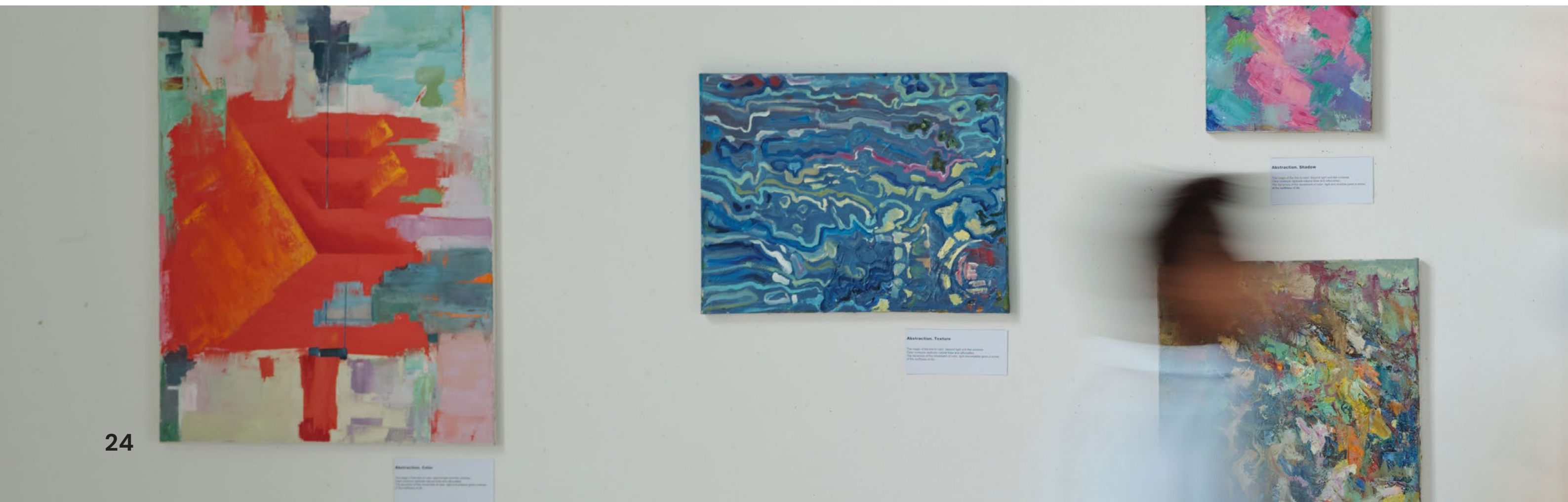
Until 29 July, the CGS applied to buildings where the value of the capital expenditure was £250k or more. From 29 July, that value increased to £600k. However, items that are already in the scheme will remain within it until the expiry of the CGS adjustment period, which brings with it a potential trap.

What does the CGS apply to?

As mentioned above, the CGS applies to land, buildings and civil engineering works. More specifically, in the case of a building, it applies to the acquisition of a building, its construction, refurbishment, fitting out, alteration or extension.

The CGS deems buildings to have a 10-year life, which commences on the date of first use of the item. The first VAT period (or interval) within the 10-year adjustment period commences on this date of first use and ends with the end of the taxpayer's VAT year. Thereafter, the remaining nine intervals correspond to the VAT year, so, in practice, the 10-year CGS adjustment period is only ever nine and a bit (Harry Potter fans will be delighted!).

A VAT year ends in the spring VAT return quarter (March, April or May) depending on your VAT return stagger, unless you have specifically agreed with HMRC that it should end at some other date.



How does the CGS work?

In the first interval, you fully or partly deduct VAT or not in the same way as any other item of expenditure:

- If you were going to use the building only for making taxable supplies, then you claim all the VAT back.
- If you were going to use it only for making exempt supplies, then none of the VAT would be recoverable.
- If you were going to use it mainly for making exempt supplies, but you used it for making some taxable supplies, then you deduct the relevant percentage as determined by your partial exemption method in the quarter in which the cost is incurred and then as adjusted in the annual adjustment calculation.

This initial recovery amount forms your baseline recovery percentage against which CGS adjustments are made.

For a construction project spread over several years, you would recover VAT in the relevant quarters and annual adjustments as you went along. Then when the building is first brought into use, you would add up how much VAT you had recovered and express that as a percentage of the total VAT incurred on the item. That percentage would form the baseline recovery percentage.

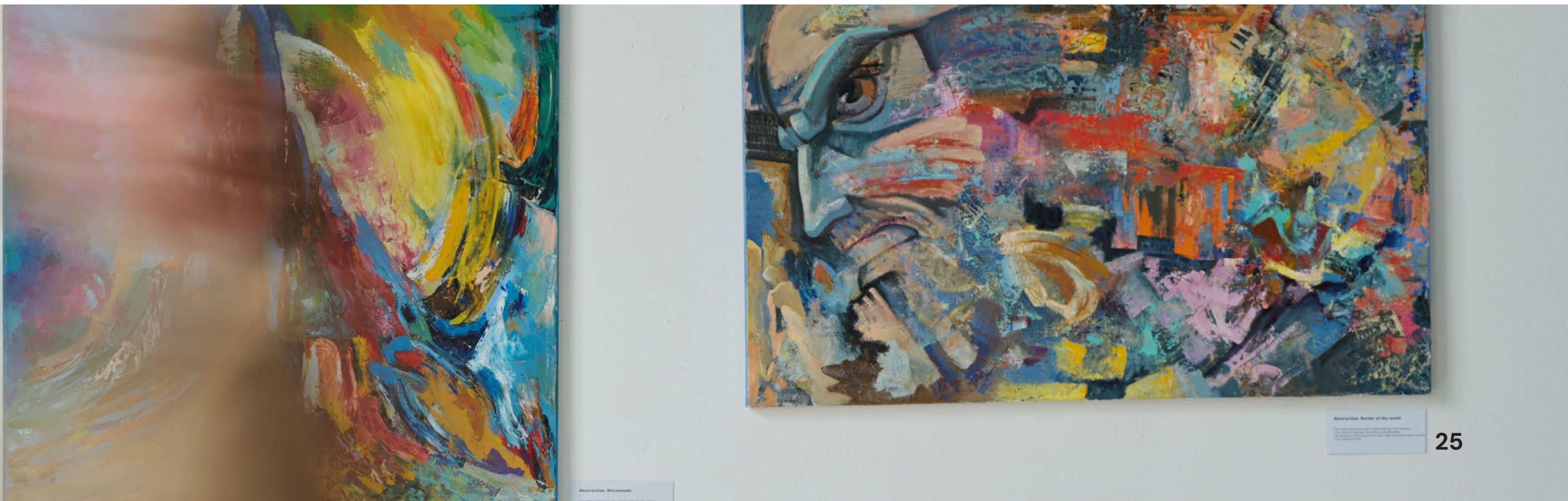
The difference starts at the end of the second interval. Here, you look at the use to which the item has been put in making taxable supplies in this second interval and you compare it to the baseline recovery percentage from the first interval. If it is the same, then no adjustment is due.

However, if the item is being used to make more taxable supplies, then you can recover some of the VAT you originally did not recover, and if it is being used to make fewer taxable supplies, then you must repay HMRC some of the VAT you originally reclaimed.

This process of adjusting the initial deduction of VAT is repeated until the end of the 10-year CGS adjustment period, and each year 1/10th of the VAT originally incurred is subject to adjustment.

By way of a simple example, if a theatre underwent a major refurbishment costing £2m plus VAT and was originally going to be used solely for making exempt supplies under the cultural exemption, then none of the £400k VAT (20% of £2m) would have been recoverable.

But if after two years, the theatre started to let out the building to touring companies and charged them a taxable hire fee and the use was 2% of the total turnover of the theatre, then the theatre would look at the £400k VAT it incurred. Of this, 1/10th or £40k would be subject to adjustment and, since the taxable use has gone from 0% to 2%, the adjustment percentage is 2%, so 2% of £40k (£800) would now be recoverable.



This exercise would be repeated for the remaining intervals, always comparing the use in the current year to the initial use (0% in this example) in making taxable supplies.

The vast majority of CGS adjustments are of this magnitude, since the use of an asset in making taxable supplies generally only varies by a percentage point or two. But, if the theatre decided it wanted to disable the cultural exemption, then the recovery percentage could increase significantly.

I said earlier that there was a potential trap with items which were in the CGS under the old £250k limit. The trap is not so much the limit itself but the fact that the item remains within the CGS for 10 years. Imagine, for example, that a museum wanted to construct a new wing for £5m. It might have received some Arts Council funding, it may have run a fundraising campaign, but if it remained culturally exempt, then the £1m VAT on the £5m construction costs would be irrecoverable.

The museum might well decide to disable the cultural exemption so as to recover that VAT. Let us assume it decides to do that. The construction work takes two years, the new wing is opened, all of the VAT on the construction was recovered and VAT is charged on entry fees. No CGS adjustments are being made since there has been no change in use. All proceeds smoothly but over time, the original finance team moves on and a new Finance Director (FD) is appointed six years after the new wing opened.

The economy is not doing well, entry fees are down and the new FD makes a perfectly rational decision that if the museum becomes culturally exempt instead of handing over 20% of a £12 admission fee to HMRC in the form of VAT it could keep prices at the same amount and immediately boost admission income by that 20%.

But if there is no one with the institutional memory as to why the cultural exemption was not being applied in the first place and still four years left in the CGS adjustment period, then £400k of the VAT originally reclaimed is due to be repaid to HMRC.

If this does not come to light until a VAT inspection up to four years after this change of use, then not only is there a back tax liability of £400k but a potential penalty of up to 30% plus interest currently running at just under 8%.

Whilst I said that the trap was not so much the limit itself, the fact that the £250k threshold for an item to be in the CGS was so small, the potential for much smaller change of use errors is also significant even if they were not to have such a dramatic impact.

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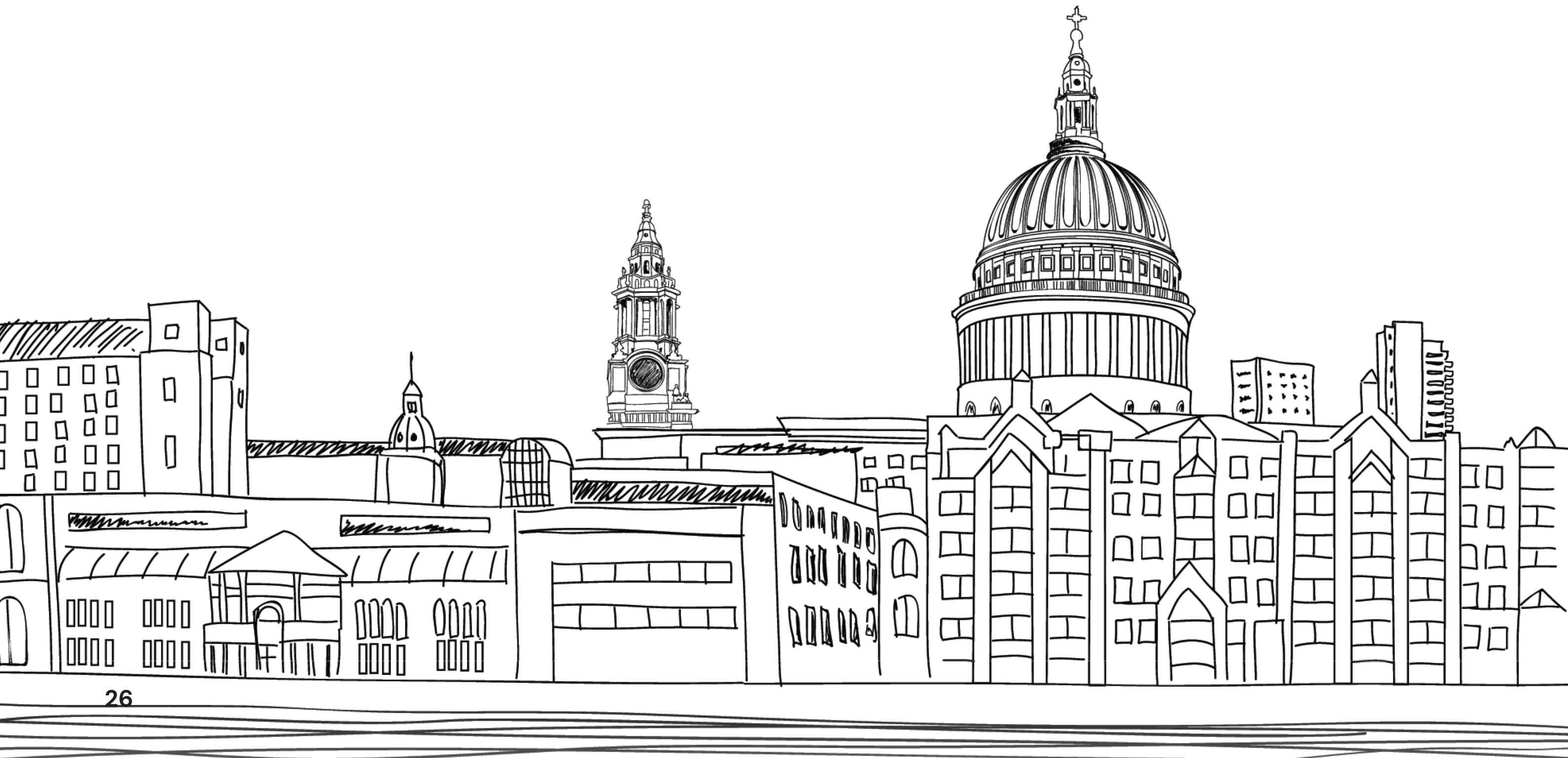

International Gift Aid implications

With arts organisations becoming increasingly active globally, including widening fundraising efforts, getting it right with Gift Aid is essential.

Accessing Gift Aid on donations from overseas individuals

Gift Aid is a UK tax relief that allows charities to reclaim basic rate income tax on donations it receives from eligible UK taxpayers. The fundamental requirement is that the donor must be a UK taxpayer — specifically, they must have paid sufficient UK income tax and/or capital gains tax in the relevant tax year to cover the amount that the charity reclaims from HMRC. Where the donor has not paid sufficient UK tax, HMRC may pursue the shortfall from the donor or, exceptionally, the charity if it has not followed proper procedures.

Given the above, an individual donor who is resident overseas but has UK-source taxable income (such as rental income from UK property, UK employment income or gains on UK land/property) and pays UK tax can, in principle, make a valid Gift Aid declaration to the charity.

As such, it is possible for a charity to claim Gift Aid on what appears to be an "overseas" donation. However, the charity should ensure that the donor fully understands the "tax to cover" principle and is confident that they will have sufficient tax liability in the relevant tax year to allow Gift Aid to be claimed. This check is in addition to ensuring that the other main administrative points are dealt with, including that the donor has signed a Gift Aid declaration, any benefits given by the charity in consequence of the donation do not exceed the benefits threshold, and that a full audit trail of the donation is kept. HMRC also expects full address details to help them match up tax records to the donor.

***Key takeaway:** Where donors provide a non-UK address as part of their donor record, a charity should carry out additional checks to see if Gift Aid is claimable – do not assume an overseas address blocks a Gift Aid claim.*

Gift Aid and international charities

A charity registered overseas (rather than in the UK) can theoretically claim Gift Aid in the UK. However, to do so, the charity must be supervised by either a UK High Court or Court of Session. This is known as the 'jurisdiction condition'. As such, the administrative burden involved in meeting these requirements is likely to preclude many overseas registered charities from pursuing a claim for Gift Aid in the UK.

This also means that for a UK donor, the usual tax efficiencies of donating via Gift Aid are not available, which may put UK donors off donating altogether.

As an alternative option, UK donors may choose to instead use a UK registered charity which aligns with their chosen overseas charity or a grant-making UK charity with worldwide objects (such as CAF) or indeed, a Donor Advised Fund.

A Donor Advised Fund (DAF) is an account or wrapper set up under the umbrella of a UK registered charity. A DAF enables the donor to make a cash donation and receive UK tax relief (via Gift Aid) whilst affording the donor time to consider which charities they wish to support. The DAF takes on responsibility for receiving donations and dealing with any related administration requirements, then makes grants to other charitable organisations, including overseas charities. This offers UK donors the opportunity to make overseas donations whilst attracting UK tax relief (via Gift Aid).

***Key takeaway:** When dealing with overseas donors or charities, consideration should be given to whether tax-efficient giving may be possible for UK taxpayers.*

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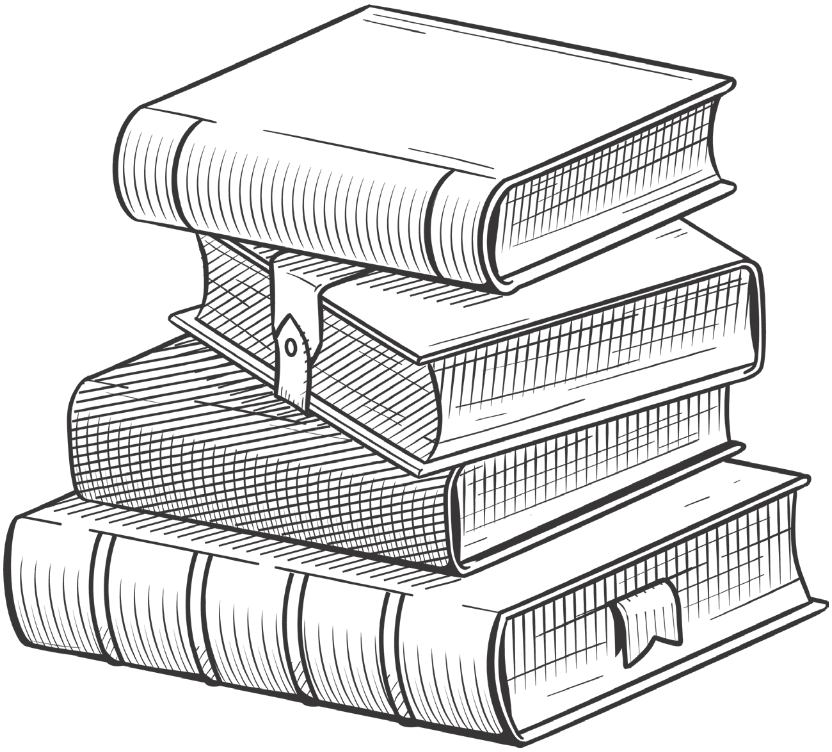

Upcoming events

SORP: New Trustees Report

10:00 - 11:00

16 September 2026

Online

Arts & culture: Theatre Tax Relief webinar

15:30 - 16:15

17 September 2026

Online

Arts & culture: SORP update webinar

11:00 - 11:45

21 September 2026

Online

SORP: Leases - Charities

10:00 - 11:00

29 September 2026

Online

Arts & culture: VAT and Employment Tax webinar

10:30 - 11:15

1 October 2026

Online

SORP: Charities - Income recognition

10:00 - 11:00

8 October 2026

Online

Trustee Training: Roles and responsibilities

10:00 - 14:00

13 October 2026

Online

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