ATHOLL SCOTT
ACCOUNTANCY

ABERDEEN • BANFF • INVERURIE

www.athollscott.co.uk

NEWSLETTER Issue 3 2026

Late payment crackdown confirmed

New legislation to tackle late payments is currently going through parliament.

The Bill will introduce:

- a new 60-day cap on payment terms for larger firms paying smaller suppliers
- new mandatory interest on late payments, with a requirement for all commercial contracts to include statutory interest set at 8% above the Bank of England base rate
- a time limit for raising disputes on payments
- action to ban the practice of withholding retention payments under construction contracts, to prevent small firms losing retentions to insolvency or non-payment
- significant new powers for the Small Business Commissioner to investigate poor payment practices; adjudicate disputes outside the courts; and fine the worst offenders.

Provisions are intended to apply UK-wide, though this will require regulatory alignment in Scotland, Wales and Northern Ireland.

Payment issues are always disruptive, and we can advise on cash and debtor management if this is relevant to you. Please contact us for an in-depth discussion.

HMRC targets close companies

The proposals stand to impact profit extraction, recording and financial management for many owner-managed businesses.

Hard on the heels of the requirement for directors of close companies to report additional information on the Self Assessment tax return from 2025/26, the government is now considering further change. It is widely expected that this will mean a requirement to report transactions between close companies and their participators to HMRC.

Would this impact you? Close companies, broadly speaking, are companies controlled by five or fewer participators, or by any number of participators who are directors. Participators are those who have an interest in the capital or income of a company, such as a shareholder. Most small and medium-sized companies are close companies.

Why the possible change? The small business Corporation Tax gap makes up a significant slice of the tax gap, and HMRC is concerned that in close companies, the boundary between company monies, and the monies of those involved in the company is not always tightly drawn. Increased reporting requirements would give HMRC more information and help it check that transactions are taxed appropriately.

What are the proposals? The main risks HMRC sees are:

- under-reported income and over-claimed expenses
- error and evasion in transactions between a company and its owners.

It therefore suggests that close companies report details of transactions between the company and its participators including: cash withdrawals; loans; debts; dividends; and other distributions, and transfers of assets to and from the company. This would mean reporting the recipient; amount; and date of each transaction; and possibly also the National Insurance numbers of participators. Rules would also extend to corporate participators.

Is there anything to do now? Company financial housekeeping, such as the operation of directors' loan accounts, is very much a focus for HMRC at present. The current consultation highlights HMRC's push for companies to keep records of monies passing between the company and its owners, with 'a more structured framework' around those records and 'good habits around tracking the company's money'.

Change along the lines indicated therefore seems inevitable, and will mean more demanding compliance. We can help you assess possible impact now, looking at areas such as profit extraction strategy; use of directors' loan accounts; and the correct issue and documentation of dividends. Please contact us for further advice.

Inside this issue ■ Research and Development: errors to avoid ■ Business Asset Disposal Relief claims under scrutiny ■ Inheritance Tax: navigating the exemptions ■ HMRC ups game with state-of-the-art AI ■ Family fun with temporary summer VAT rate ■ Tax fall-out from change to financial reporting standards

Research and Development: errors to avoid

Fly-by-night ‘experts’ land wholesale beer business with tax bill of over £500,000.

A company undertaking an innovative research and development (R&D) project may be able to take advantage of significant tax breaks. Unfortunately, the availability of tax relief can also attract fraudsters. A typical fraud sees rogue firms posing as specialist advisers, submitting R&D claims for their clients, and creaming off the proceeds - leaving behind a claim that may later fail HMRC scrutiny. This was what taxpayer business, Beer Express Ltd, found to its cost at the First-tier Tax Tribunal, recently.

Tax relief

R&D tax relief comes via two schemes. The new merged R&D scheme offers a 20% above-the-line taxable credit: and the enhanced R&D intensive support scheme (ERIS), available to loss-making, R&D-intensive, small and medium-sized enterprises, provides an enhanced deduction of 86%, and a potential repayable tax credit. Financially, the stakes can be high and unscrupulous so-called advisers know this.

Rogue advice

Beer Express, though primarily a wholesaler, also owns a pub, the Penny Gill, and markets products of its own, such as Penny Gill Lager and Beer. In 2020, it started two new projects, one using forecasting software to optimise its inventory, and the other to develop a new, uniquely-flavoured pale lager. Two further projects followed, one a software development project, and the other to develop its brewing offering.

The business was approached by a firm holding itself out as an R&D specialist. It suggested that the work being done would qualify for tax incentives under the R&D Guidelines. The firm was duly appointed and obtained a tax refund, paying this to Beer Express after deduction of fees.

In 2023, HMRC rejected the R&D claim in full, and asked for repayment of the refund. When Beer Express attempted to contact their 'advisers', the firm appeared to have disappeared.

Rules matter

Broadly speaking, to qualify as R&D for tax purposes, a project must involve the resolution of uncertainty to achieve an advance in science or technology, and fit within the rules set out in ‘Guidelines on the meaning of research and development for tax purposes’ on GOV.UK. Further specific requirements also apply, such as the need for a project to be overseen by a competent professional or person with relevant expertise. The Tribunal decided that Beer Express failed to qualify in these areas.

The Tribunal found that the company owner, although truthful and credible, did not have any in-depth knowledge of the projects: ‘Although he may have overseen the projects or had a vision for the future . . . he had not been responsible for the design, creation, planning and implementation such that he satisfied the Guidelines as a competent professional’. The company had thus failed to provide clear and cogent evidence of the advance being sought; the technical uncertainty involved; or the reason that additional research was needed. It lost its case.

Eligibility requirements for R&D for tax purposes are complex. Do please contact us for further advice.

Business Asset Disposal Relief claims under scrutiny

HMRC is currently looking at claims to Business Asset Disposal Relief (BADR) made in the 2024/25 Self Assessment tax return.

What is BADR?

BADR (formerly known as Entrepreneurs’ Relief) is an important Capital Gains Tax (CGT) relief. It can be available where someone disposes of qualifying business assets, such as shares in a company. In recent years, the value of the relief has been reduced, but where conditions are met, CGT on qualifying gains is charged at a reduced rate of:

- 10% for 2024/25
- 14% for 2025/26
- 18% from 2026/27.

What is HMRC doing?

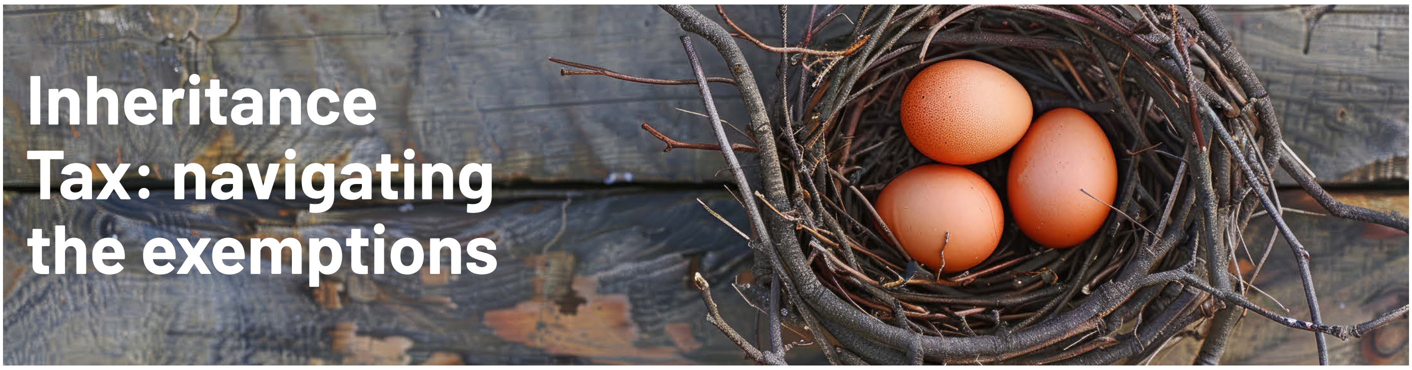
HMRC has been writing to taxpayers who claimed BADR in their 2024/25 Self Assessment tax return where its data suggests that they might have exceeded the £1 million BADR lifetime limit. This could happen if someone had exceeded the lifetime limit before the claim in the return, or because the claim in the return had taken them over the limit. It is, of course, possible that the claim for BADR is correct, and does not need amendment.

Receiving a letter

HMRC routinely uses letters like these to nudge taxpayers to check their tax position, and they do not necessarily mean there is a problem. It is important, though, that letters of this type are not ignored. They do need a response within the deadline given, whatever the circumstances. Failure to act can mean that HMRC will amend a return or open an enquiry. There is also the potential for interest and penalties.

As your agents, we should receive a copy of any such letter, and will deal with it on your behalf. Please bear in mind, however, that HMRC systems are not foolproof, so if you get a letter and have any concerns, do contact us.

Inheritance Tax: navigating the exemptions



With the extension of Inheritance Tax (IHT) to most unused pension funds and pension death benefits from April 2027, IHT is very much in the public eye.

With timely advance planning, however, it is still possible to take advantage of valuable IHT exemptions. These include the annual exemption of £3,000; and the exemption for small gifts made to individuals not exceeding £250 per tax year, per recipient. And, of course, it should be remembered that gifts from one spouse or registered civil partner to another are generally fully exempt. But it is always important to get the rules right, and we look here at a recent decision from the First-tier Tax Tribunal where things did not go to plan.

Normal expenditure out of income

The exemption for normal expenditure out of income is perhaps one of the less well known exemptions from IHT. It can be available where someone makes a gift:

- that is part of their normal expenditure and
- taking one year with another, it is made out of their income, and
- after allowing for all transfers of value forming part of their normal expenditure, the giver is left with sufficient income to maintain their usual standard of living.

This was the exemption that donor, Mr Hosking, hoped would cover extensive giving to political causes he supported. Failing that, there were other arguments in his armoury. In the end, though, the gifts being challenged, totalling over £1.7 million, left him with an IHT bill of nearly £350,000.

What went wrong?

Mr Hosking ticked two of the boxes. There was no doubt that he had income significantly in excess of his personal living needs and those of his family. His donations were substantial. In addition to the gifts under discussion at the Tribunal, there were contributions to rescue Crystal Palace Football Club, gifts to heritage railways, and other gifts to charities and political causes in excess of £20 million. HMRC agreed that these gifts were made out of income, and did not impact Mr Hosking's standard of living.

That left the question of whether gifts to various pro-Brexit causes between 2011 and 2016 were part of Mr Hosking's 'normal expenditure'. Had the Tribunal been given clear evidence that the giving was part of a settled pattern of expenditure, Mr Hosking might have won the day. The Tribunal was looking for signs of definite predictability or regularity in the donations over a period of time; or a prior commitment to make gifts out of future expenditure, backed up by documentary evidence. But it didn't find them.

The Tribunal decided that though the gifts made by Mr Hosking were not 'out of character or abnormal and in that sense were "normal expenditure"', amounts donated varied tremendously year on year, and there appeared no settled prior commitment. For these reasons, the gifts did not fall within the meaning of normal expenditure as set out in the legislation. On this, and on other grounds, Mr Hosking's case failed.

We can help

To benefit from this particular exemption, it is essential to be able to demonstrate a settled pattern of expenditure, measurable over a period of time or by a definite commitment to future expenditure. Do please contact us for further advice on this, or any other aspect of IHT.

HMRC ups game with state-of-the-art AI

HMRC has recently partnered with British-based data analytics and AI leaders, Quantexa, in a £175 million deal.

Quantexa works with public sector organisations globally on fraud, risk, compliance and data modernisation initiatives. The aim in this case is to support the modernisation of HMRC's core data infrastructure, giving it a clearer, connected view of its data. This should:

- improve performance
- identify tax at risk
- strengthen control.

According to HMRC, 'Modern data and AI tools help us reduce duplication, better link customer information across systems and support right-first-time outcomes, improving the service we provide to customers while continuing to tackle fraud and non-compliance.'

The new tools at its disposal should give HMRC a bird's eye view not just of its own internal data, but data from other sources as well. This will enable it to spot patterns and relationships suggesting fraud more rapidly and accurately than ever before.

The programme will also lay the groundwork for advanced AI capabilities, and support wider transformation efforts. These include work to close the tax gap, and the delivery of faster, more seamless customer service.

Family fun with temporary summer VAT rate

But for the hospitality businesses impacted, another set of rules to get right.

To make family days out more affordable and support businesses, the government has announced the Great British Summer Savings scheme. It means a temporary, reduced VAT rate of 5% will apply over the summer holidays to selected activities and services for families with children. The government expects businesses to pass the VAT saving on to customers.

The temporary rate has effect for the period from 25 June 2026 to 1 September 2026 (inclusive). It applies to:

- certain supplies of children's meals (eaten on the premises, not take-aways)
- children's admission to theatres, cinemas, concerts, exhibitions and shows
- all admission tickets to attractions suitable for families with children, such as amusement parks, fairs, adventure parks and soft play attractions. Sports facilities are not included.

The reduced 5% rate replaces the standard rate of VAT of 20% for supplies within scope during this period. It does not apply to activities where no VAT is charged, for instance where there is already an exemption, or where supplies are zero-rated.

Small print

It goes without saying that any business impacted will need to check the detail of the rules, and further information can be found in HMRC's newly published 'Revenue and Customs Brief 5 (2026): Temporary reduced rate of VAT for children's meals, tickets and family attractions'.

Children's meals

For the reduced rate to apply, the meal must be supplied for consumption on the premises; served from a dedicated children's menu; and marketed, priced and presented as intended for children. It is important to be clear on what does, and does not qualify under this heading. A smaller or cheaper portion of an adult meal that is not presented as part of a children's menu, for example, is not eligible.

The Brief also deals with how to treat a child's meal supplied for a single inclusive price, for example, including a drink or additional courses - here the entire package can qualify for the reduced rate. Optional items, add-ons or upgrades priced separately, that do not form part of the children's meal, are still subject to their normal VAT liability.

Bundles and mixed supplies

Where admission, meals or tickets are supplied together with other goods or services for a single price, normal VAT rules should be used to determine VAT liability. Only the part of the supply that falls within the parameters set out in the Brief is eligible for the 5% rate. Other elements fall to be treated according to their normal VAT liability.

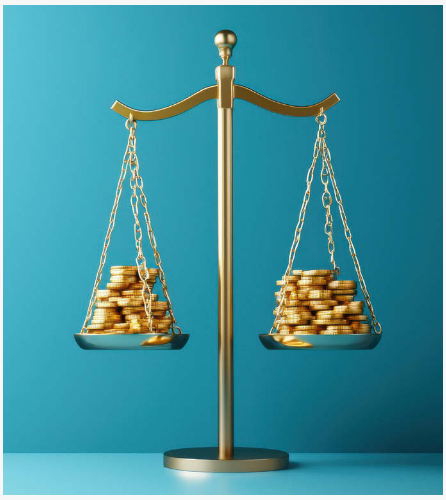
Practical problems

Businesses will need to pivot rapidly, updating systems and briefing staff to put the change into practice, and also to revert to normal rules when the scheme ends. We are here to help in any way we can. Do please contact us for help with this, or any other VAT issue.

Tax fall-out from change to financial reporting standards

Businesses impacted by change to the main financial reporting standard, FRS 102, should be alert to the potential for repercussions for their tax position as a result.

Change to FRS 102 takes effect for accounting periods starting on or after 1 January 2026, with a new five-step model for revenue recognition, and change to the way that leases are accounted for. The distinction between operating and finance leases for lessees is axed, so that most leases will be brought onto the balance sheet.



The impact of these developments, however, can be unexpectedly far-reaching. The ripples can extend to the tax liability, and its timing, as well as wider compliance issues. The basis for the Corporation Tax calculation being the accounting profit before tax, any timing changes in accounting profit can change the timing of taxable profits. Change to revenue recognition may accelerate or defer taxable income, and transitional adjustments will typically impact the tax liability in the first accounting period to which the new standard applies. Where leasing arrangements are substantial, the balance sheet is likely to show significantly higher levels of assets and liabilities. Change to figures for gross assets and turnover can have other consequences, such as entry into compliance regimes like off-payroll working; or eligibility for tax reliefs, such as the Enterprise Investment Scheme and Seed Investment Scheme.

As the change beds in, early discussion is recommended. We are here to help.