



NEWS UPDATE - 12 January 2026

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And now for the next New Year

With the festivities behind us, it is time to turn our thoughts to 5 April.

Last year's Budget revised the Chancellor's fiscal calendar. From now on, the Office for Budget Responsibility (OBR) will make only one full assessment a year of the UK's finances, alongside the Autumn Budget, leaving the Spring Statement due in March as little more than a minor update.

The tax year will still end on 5 April (Easter Sunday in 2026). Normally, many changes announced in the Budget would take effect on the following day, but that is not the case in 2026. Indeed, some of the measures of the Budget 2025 are not due to take effect until 2028 or later. Even so, there is plenty to consider now in terms of year-end tax planning. For example:

- **Threshold planning:** The Budget did nothing to remove the anomalies in the income tax system created by arbitrary thresholds. The most significant of these are:
 - The high income child benefit charge threshold starting at £60,000 (and ending at £80,000)
 - The £100,000 threshold at which the personal allowance begins to be tapered (ending at £125,140) and tax-free childcare is lost (falls off the cliff, with no tapering).
 - As the year end nears, and estimating your 2025/26 income becomes easier, there can be opportunities to either sidestep the thresholds or take advantage of gaining tax relief at the high rates they create.

- **Inheritance tax (IHT):** In the Budget, the IHT nil rate band (£325,000) was frozen for another year (to April 2031), having last been increased in April 2009. That makes it even more important that you do not waste your yearly gift exemptions – the £3,000 annual exemption, £250 small gifts exemption, and the least understood, but potentially most valuable exemption, for normal expenditure gifts.
- **Marriage Allowances:** If you or your spouse/civil partner had income below the personal allowance in 2021/22 (£12,570, as it now will be until April 2031), you have until 5 April 2026 to claim the marriage allowance for that year (£1,260), which could produce a tax saving of up to £252. A claim can only be made if the other partner was a basic rate taxpayer (starter, basic or intermediate rate in Scotland) in 2021/22. The principle applies (with an allowance of £1,260) for all subsequent years, so you might be able to reclaim over £1,250.

There are many other points to consider but do take advice before taking action. The Autumn Budget 2025 is available to read from the link below:

<https://commonslibrary.parliament.uk/research-briefings/cbp-10405>

Inheritance tax business relief – where are we now?

The inheritance tax (IHT) agricultural relief U-turns have been well publicised, but the changes apply equally to business relief.



Currently, qualifying business property included in a deceased's estate qualifies for 100% relief regardless of the value of the business property. The relief means that an unincorporated business or a shareholding in an unlisted company can be left to the next generation without any IHT implications.

There are various conditions for business relief to be available, but the most important point is that the property must have been owned for two years.

Timeline of changes

October 2024 Budget: The initial proposals would have restricted 100% business relief to a maximum of £1 million from 6 April 2026. For qualifying business property in excess of £1 million, relief would have been at the rate of 50%. Therefore, on a business valued at £5 million, IHT would have increased from zero to £800,000, assuming nil rate bands are used against other assets.

November 2025 Budget: The £1 million allowance was initially not going to be transferable between spouses or civil partners. The first U-turn saw the allowance made transferable to a surviving spouse or civil partner (even if first death occurred before 6 April 2026). Therefore, the amount of IHT on a business valued at £5 million could potentially be cut from the original £800,000 to £600,000.

December 2025 U-turn: In an announcement made just before Christmas, the government said that the 100% allowance will now be capped at £2.5 million (and will stay at this level until at least 5 April 2031). This means the £5 million business property will again be fully exempt if a surviving spouse or civil partner's allowance is available.

Cohabiting partners

Unlike married couples and civil partners, the £2.5 million 100% allowance is not transferable to a surviving partner where the couple are unmarried or not in a civil partnership. The potential IHT cost is £500,000. Nil rate bands of up to £500,000 are also not transferable, which is another potential IHT loss of £200,000.

Although a long-term unmarried couple may be content as they are, the IHT implications of remaining unmarried could merit a rethink.

Some examples of how the £2.5 million 100% allowance will work can be found from the link below: (note that the examples are based on agricultural property, but the principle is the same):

<https://www.gov.uk/government/news/what-are-the-changes-to-agricultural-property-relief>

Increased cost for copies of grant of probate

Many individuals will administer the estate of a deceased relative themselves, especially if the estate is uncomplicated. However, due to a recent change, while the cost of obtaining probate in England and Wales remains the same, the cost for each official copy of the grant has increased significantly.

Ordering extra copies of the grant of probate has risen from just £1.50 to £16 per copy. Extra copies may be needed to send probate to different institutions at the same time.

If the deceased did not leave a will (died intestate), then the closest living relative will have to apply for letters of administration rather than a grant of probate.

How many copies?

There is no hard and fast rule about how many copies are required, because each financial institution sets its own threshold for when a copy of the grant of probate is required. The institutions that might require a copy include:

- Banks, building societies and NS&I;
- Pension and insurance providers;
- Share registrars;
- Local councils to settle council tax; and
- A management company for a leasehold property.

Having spare copies also makes sense. It might be that ten copies are required, so the fee will now be £160. This is in addition to the £300 application fee for the grant of probate, although no fee is payable for very small estates of £5,000 or less.

When to get help

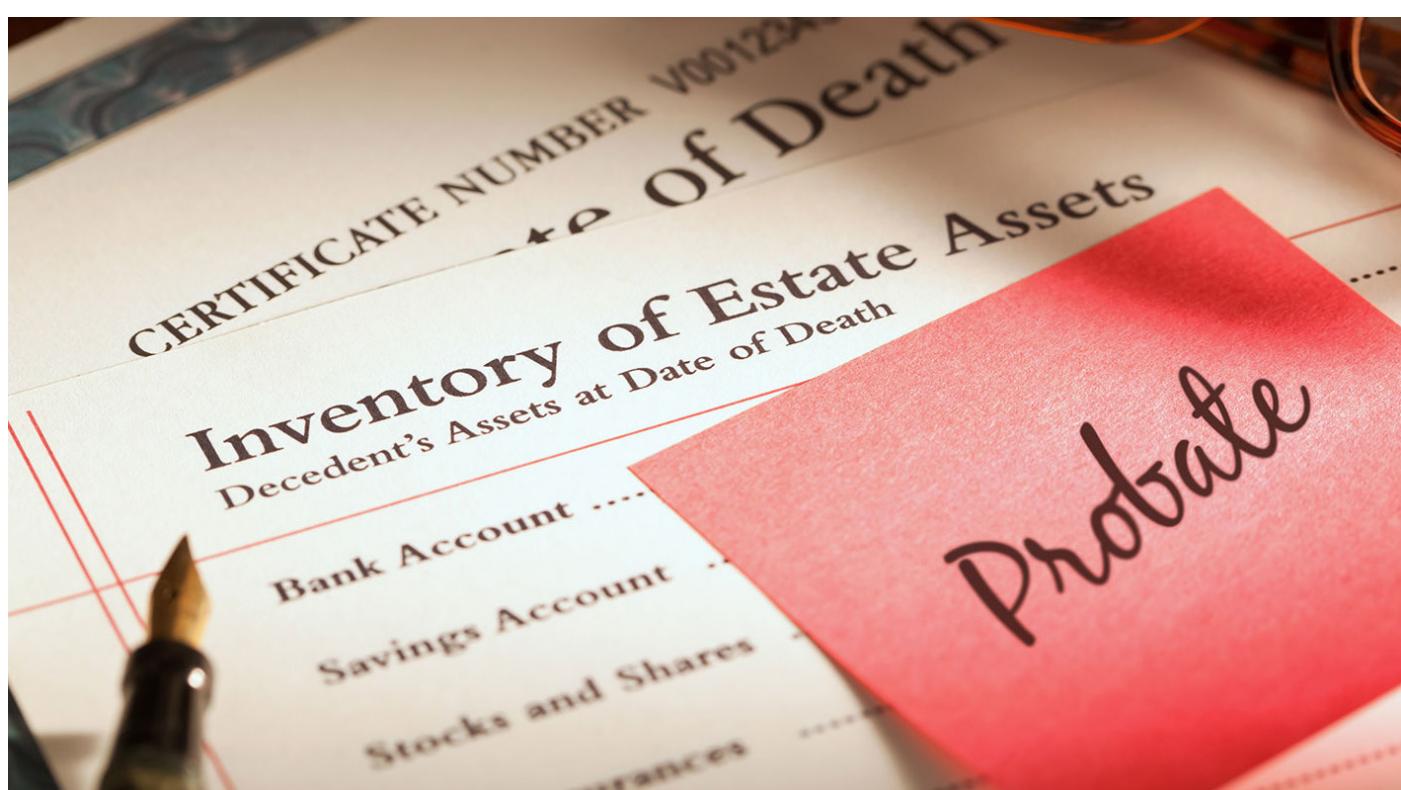
Specialist help with probate can be expensive, but in many circumstances will be required.

- **Inheritance tax:** This can be difficult to calculate, especially if there are hard-to-value assets, or complex reliefs available.
- **The terms of the will are unclear:** This could be the case if the deceased drew up the will themselves. The executor or administrator can be held personally financially liable if the deceased's estate is not correctly distributed.
- **The will is likely to be challenged:** Current/former spouses and civil partners, along with children, could make a claim if they feel they have not been sufficiently provided for.

Other situations include where money or property has been left to a trust, assets are left to children under 18, or where the deceased owned a business.

If you are involved in a probate application, the government's guide is a good starting point. This can be found from the link below:

<https://www.gov.uk/applying-for-probate>



Tax charges to rise on loans to directors

The tax charge when a director, who is also a participator, has an outstanding loan with a close company is going up by two percentage points to 35.75% from 6 April 2026.



Very broadly, a participator is a shareholder in the company, and a close company is one controlled by five or fewer participators.

Overdrawn loan account

Loans between a director and their company are fairly common, and there are various reasons why a director's loan account can end up overdrawn. An overdrawn director's loan account will normally be cleared by voting the director a dividend or bonus, but there are situations where this is not done. This could be because the tax implications are prohibitive for a particular tax year; or because the company does not have sufficient profits available to pay a dividend.

When the tax charge applies

The tax charge is payable when an outstanding loan is not repaid within nine months and a day of the end of the company's accounting period.

For example, on 15 April 2026, a director withdraws £150,000 from

their personal company to help fund a private property purchase. The company has an accounting date of 31 March:

- The loan falls in the company's year ending 31 March 2027, so there will be no tax charge if it is repaid by 1 January 2028. By careful timing, the director can make use of company funds for over 20 months, with the only tax being what is charged on the director for having a beneficial loan.
- If not repaid by 1 January 2028, the company will have to pay a tax charge of £53,625 (£150,000 at 35.75%) along with its corporation tax liability.

The tax charge will be refunded by HMRC if – after 1 January 2028 – the loan is repaid or written off.

HMRC's basic guidance on loans to director can be found from the link below:

<https://www.gov.uk/directors-loans>

Property income tax rates going up

Landlords have had one piece of bad news after another of late. With the Renters' Rights Act 2025 recently added to the statute books, landlords are now facing an across-the-board two percentage point increase for property income tax rates from 6 April 2027.

The rate increase will be achieved by the creation of a separate set of income tax rates for property income. The property basic rate will be 22%, the property higher rate will be 42% and the property additional rate will be 47%.

The new property income tax rates will only apply for English, Welsh and Northern Irish landlords. However, the devolved Scottish government will be given the power to also increase rates.

Uneven impact

Relief for residential finance costs is going to increase in line with the new property basic rate, which means it will be set at 22% from 6 April 2027.



Therefore, highly geared landlords will be less impacted from the changes than landlords who have no, or very little, borrowing:

- For example, a higher rate taxpayer with property income of £20,000 and no finance costs, will be looking at an annual tax increase of £400.
- However, if finance costs are £15,000, the tax increase will only be £100.

The changes are more serious for those with a larger portfolio of properties, so someone with, say, ten to twelve rentals, and only moderate financing, could be facing a tax increase of around £1,500 to £2,000. With landlords already being hit by various other costs, they are probably going to have to pass on some or all of the extra tax by raising rents.

Incorporation

Incorporating an existing property portfolio may be too expensive from a tax perspective, but landlords may decide to acquire new properties through a company. A limited company structure means full relief for finance costs, but will often not be beneficial taxwise when it comes to extracting the property income from the company.

Be warned that the basic and higher tax rates on dividend income are also being increased by two percentage points.

The government's guide to renting out property can be found from the link below:

<https://www.gov.uk/renting-out-a-property>

Should you wish to discuss this News Update in further detail please contact BGM at: communications@bgm.co.uk

Disclaimer: This information provides an overview of the issues considered and is for general information only. It is not intended to provide advice and should not be relied upon in any specific transaction.