



NEWS UPDATE - 14 April 2026

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Cycling to work tax savings continue

There is no financial limit on the value of cycles that can be provided to employees under the cycle-to-work scheme. Therefore, it was something of a surprise when the Chancellor did not impose a cap in the November 2025 Budget, especially as some cycles can cost over £5,000.

The cycle-to-work scheme has become extremely popular, which should be no surprise given the tax savings.

At least 50% of the cycle’s use must be for qualifying journeys – generally meaning the employee’s commute to work.

Typical scenario

After registering with a cycle-to-work scheme provider, the employer purchases the cycle and hires it to the employee, probably under a salary sacrifice arrangement. The hire period will normally be between 12 and 18 months.

- The cost of the cycle is repaid by the employee by gross monthly salary deductions.
- If the monthly salary deductions are, say, £400, this will save an employee paying tax at the higher rate of some £160 in tax each month – plus a small amount of national insurance contributions (NICs).
- The employer saves NICs of £60 each month.

The cycle-to-work scheme must be offered across the whole workforce (although this does not necessarily have to be through a salary sacrifice arrangement).

End of the hire period

At the end of the hire period, the employee can return the cycle to the provider, or they can extend the hire agreement; extension comes with a nominal payment. Therefore:

- Many employees will go for a third option, which is to take immediate ownership of their cycle by paying a fair market value to the employer.
- For a cycle just a year old and costing over £500, HMRC will accept a disposal value of 25% of the cycle’s original price.

The percentage is lower for older cycles and those costing less than £500.

Detailed guidance on the cycle-to-work scheme for employers can be found from the link below:

<https://assets.publishing.service.gov.uk/cycle-to-work-guidance.pdf>
(note that the rates of NICs in the guidance are out of date).

An unwelcome April Fool's for business tax changes

The start of April rolled in some far from funny changes for businesses: reduced capital allowances, increased penalties for late filing of corporation tax returns and the closure of HMRC's free corporation tax return filing portal.



Capital allowances

Capital expenditure will often qualify for a 100% deduction, but where expenditure does not qualify, then a subsequent annual writing-down allowance (WDA) will be given. For periods commencing on or after 1 April 2026 (6 April 2026 for sole traders and partnerships), the main rate of WDA has been cut from 18% to 14%. This means:

- Most expenditure on cars does not qualify for a 100% deduction, so the WDA reduction effectively results in more tax payable.
- Expenditure on new (not second-hand) zero-emission cars still qualifies for a 100% deduction, although this relief is set to end on 31 March 2027 (5 April 2027 for sole traders and partnerships).

A hybrid rate of WDA will apply for accounting periods spanning 1/6 April 2026.

Penalties

The penalties for filing corporation tax returns late have doubled. The initial late filing penalty is now £200, increasing to £400 if more than three months late.

Where a return was also late for the two preceding accounting

periods, the £200 and £400 penalties are respectively increased to £1,000 and £2,000.

Corporation tax returns

While not an issue for those using an agent, HMRC has closed their free online corporation tax filing service on 31 March 2026. This means:

- Going forward, anyone filing company tax returns with HMRC will need to use commercial software.
- Any changes or amendments to previously submitted tax returns will also have to be made using commercial software.

The closure of HMRC's tax return filing portal means all records previously held online are no longer available. Hopefully, the records have been downloaded, and these should be stored securely.

Companies House was also going to require company accounts to be filed using commercial software from 1 April 2027, but this requirement has now been postponed.

The government's guide to capital allowances can be found from the link below:

<https://www.gov.uk/capital-allowances>

Making Tax Digital launches but few are ready

Making Tax Digital (MTD) is now live, but given the low numbers registered with HMRC, many sole traders and landlords affected are still looking at how to comply, keep the administrative burden to a minimum and will probably be looking for inexpensive – or even free – software to use.

Low sign-up

At the start of April, nearly 80% of those required to register for MTD had not done so. The problem is that many do not see any upside to keeping digital records and having to report figures to HMRC quarterly:

- A number of individuals will find getting records together for the annual self-assessment tax return difficult enough, and will not relish complying with tight quarterly reporting deadlines.
- Because the MTD compliance threshold is based on income, there will be some who have to comply but will not even have a tax liability. They will almost certainly not want to incur additional agent fees for MTD compliance.

For many individuals, the best option might be to keep the minimum required records using a standard spreadsheet and then use free bridging software to deal with the quarterly reporting requirement. With the first quarterly update due on 7 August, now is the time to get organised.

Software

HMRC has created a software finder tool to direct taxpayers towards

suitable software, including a number of free options. However, several of the available options are still at the development stage.

Software that imports information directly from the taxpayer's bank account may be the perfect solution for many sole traders and landlords, but not for those who are putting their business and/or letting income and expenditure through their personal bank account.

Exit options

The £50,000 MTD threshold from 6 April 2026 is based on income for 2024/25. There will be some individuals whose income has since fallen to below £50,000, and HMRC has now clarified when it is possible to apply to opt out of MTD.

Unfortunately, opting out is only possible where all sources of qualifying income have ceased; not the case if, for example, self-employment ceases, but there is still property income. Opting out of MTD can be done via HMRC's webchat, by telephone or by writing to HMRC.

The start point for finding software that works with MTD for income tax can be found from the link below:

<https://www.gov.uk/recover-statutory-payments>



A light shone on the limits of the IHT gift rule

The normal expenditure out of income exemption allows individuals to make gifts during their lifetime that are immediately exempt from inheritance tax (IHT) – there is no seven-year wait. A recent case heard by the First-tier Tribunal (FTT) has cast some light on what is meant by ‘normal expenditure’.



Normal expenditure

The case heard by the FTT was only concerned with whether the gifts made by the taxpayer were normal expenditure. To count as normal, gifts must be habitual or regular, but do not have to be a fixed amount.

Although the taxpayer had made many substantial charitable donations, HMRC took issue with donations to campaigns supporting the UK leaving the EU. Exemption for these donations was denied because they were made over a period of just nine months, which was not sufficient time to establish a settled pattern; there was no predictability to the donations. What is more, there was no particular reason for the financial amount given to each gift.

A settled pattern would normally mean gifts being made over three to four years, but a single gift might qualify if there is evidence that it was intended to be the first in a pattern.

Exemption

To be covered by the exemption, gifts must:

- be made as part of the individual's normal expenditure;
- be made out of income; and
- leave the individual with sufficient income to maintain their usual standard of living.

The income aspect might be considered straightforward, but this is not always the case. There is no statutory definition, and income is not necessarily the same as income for tax purposes. It will, for example, include non-taxable income, such as income from individual savings accounts (ISAs). HMRC considers income to become capital after it has been accumulated for a period of two years.

'Usual standard of living' will generally be what was usual for the individual at the time the gift was made. Exemption may, therefore, not be lost where an individual makes a regular commitment, at a time when surplus income was available, but then has to lower their standard of living for another reason, such as redundancy.

Detailed guidance on the normal expenditure out of income exemption is available in HMRC's internal manuals which can be found from the link below:

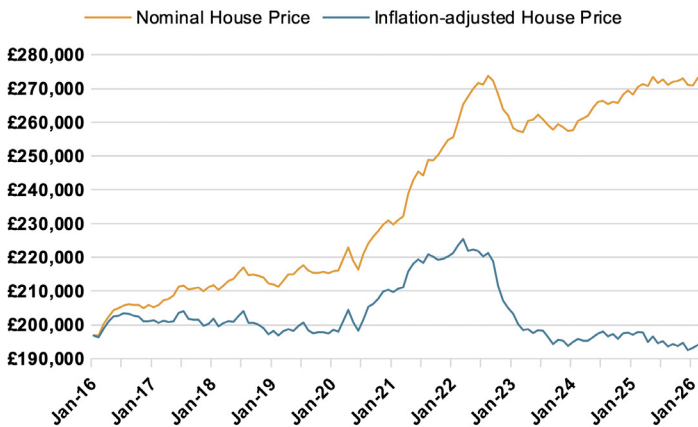
<https://www.gov.uk/hmrc-internal-manuals/inheritance-tax-manual/ihtm14000>

House prices versus inflation

Bricks and mortar are not always a sure-fire winner.

From January 2016 to January 2026, did house prices grow faster than inflation? The answer is in the graph below.

Nationwide average house prices



Source: Nationwide, ONS

Nationwide Building Society says the average UK house price in January 2016 was £196,829. Ten years later, it had risen to £270,873, a 37.6% increase. Over the same period, the Consumer Prices Index (CPI) increased by 40.2%.

If the result is not what you expected, it could be because you remember the unexpected boom during and immediately after the Covid-19 pandemic, but forgot the somewhat turgid period for house prices that followed. In the three years from January 2023, the average house price rose by 4.9%, while the CPI added 10.4%.

Ironically, some of the recent slowdown in house price growth is linked to general inflation. One factor that put the brake on house prices was the increase in interest rates made by the Bank of England to bring down inflation (which peaked at over 11% in October 2022). Until June 2022, the Bank of England's rate was no more than 1%. As anyone facing the imminent expiry of a five-year fixed rate mortgage knows, the Bank's action on interest rates, now compounded by the war in Iran, has made borrowing considerably more expensive than half a decade ago.

The near-flatlining of house prices and, until recently, cuts to mortgage rates did make life marginally easier for first-time homebuyers. That

has not been good news for one group of existing property owners: buy-to-let investors. Zoopla, the property website, reported that at the start of the year, average enquiries per rental property were at their lowest level since 2019 and down a fifth on January 2025. Reduced demand has translated into slowing rental growth, which has come down from 7.8% annual growth in January 2025 to 3.1% a year later, according to data from the Office for National Statistics (ONS). In England, buy-to-let investors are also facing the implementation of the Renters' Rights Act, which from 1 May 2026 will put an end to no-fault evictions ('section 21 orders').

Buying and owning your own home generally remains a sensible move, but be wary of treating it as the only investment you need to make.

Read more on private rent and house prices from the ONS can be found from the link below:

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/private-rent-and-house-pricesuk/january2026>



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

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