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CHARTERED ACCOUNTANTS

NEWS UPDATE - 14 July 2026

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Enterprise management incentives grow in popularity

The April 2026 enterprise management incentive (EMI) reforms have pushed this perk towards mainstream acceptance. Higher qualifying limits mean that EMI tax-advantaged share options can now continue to be granted even as a company grows and matures.

EMIs help to retain and reward key people. They can be granted options at a price agreed at the outset, and which can be exercised at a set time or if a performance target is hit. The maximum market value of unexercised EMI share options that an employee can hold in a three-year period is £250,000.

Tax advantages

There is generally no tax charge when EMI share options are granted to an employee or when options are exercised. A capital gains tax liability can arise when the shares are sold, but the gain will potentially qualify for a flat rate of 18%.

Qualifying limits

The following limits apply to EMI contracts granted since 6 April 2026:

- The maximum market value of unexercised EMI options granted by a company cannot exceed £6 million (previously £3 million).
- Gross assets must be less than £120 million, with fewer than 500 full-time equivalent employees (previously £30 million and 250 employees).
- The maximum exercise period for EMI options is 15 years (previously 10 years).

Companies can retrospectively apply the 15-year exercise period to EMI share option contracts previously granted.

Company considerations:

- Companies which have not previously qualified for EMI should review whether they now qualify, and whether EMI options are the right choice for future employee equity incentives.
- Similar considerations apply if a company has previously qualified, but then exceeded the gross assets or employee limits as the company has grown; or the company has hit the old £3 million limit for unexercised EMI options.
- Companies with existing EMI options should decide whether they want to extend the exercise period to 15 years.

Details on EMIs (along with other employee share schemes) can be found from the link below:

https://www.gov.uk/tax-employee-share-schemes/enterprise-management-incentives-emis

Deprivation of assets under watch

People are updating their tax-planning strategies to take account of inheritance tax (IHT) being charged on unused pension pots from April 2027. An unintended consequence of such planning, however, is the impact on long-term care costs.

The problem

If capital and savings are above £23,250, then in England a person has to fund all of their long-term residential care. This might seem a low threshold, but remember the value of your home will be disregarded if your partner (or a relative aged 60 or over, or a dependent child) continues to live there. Therefore:

- Deprivation of assets rules mean that a person cannot obtain care cost funding by gifting assets to their family.
- This is where the new pension tax rules can be an issue: many older people are attempting to reduce future IHT bills by with drawing large sums from their pensions, and then gifting the money to children and grandchildren.
- A local authority might well treat such gifts as a deliberate deprivation of assets.

There is no time limit on how far back local authorities can look. If a person is found to have deprived themselves of assets, they will be treated as still owning the money or assets that were given away.

Given longer life expectancy, the financial impact of unexpectedly having to fund care costs can be substantial.

The right balance

A substantial gift may well meet the IHT objective, but could create future difficulties when care costs come into play.

Local authorities will look at whether care needs were foreseeable at the time a gift was made, so earlier gifts when made in good health will be much easier to justify. Detailed record keeping is essential. The records should show that the purpose of a gift is genuine estate planning or family support, as opposed to avoiding care costs.

Age UK's detailed factsheet on deprivation of assets can be found from the link below:

https://www.ageuk.org.uk/siteassets/documents/factsheets/fs40_deprivation_of_assets_in_social_care_fcs.pdf

ISA reform means changes for savers

From 6 April 2027, anyone aged under 65 will only be able to save a maximum of £12,000 into cash individual savings accounts (ISAs) each tax year. The overall ISA limit will, however, remain at £20,000, with new rules introduced to minimise the opportunity for the lower cash ISA limit to be circumvented.

Aim of the new rules

The new rules are being introduced to prevent a saver from subscribing up to £20,000:

- In cash into a non-cash ISA and leaving the cash there long-term, earning tax-free interest.
- In a non-cash ISA and then transferring those funds to a cash ISA.
- To a non-cash ISA and then using the funds to purchase cash-like investments.

A non-cash ISA means a stocks and shares ISA or an innovative finance ISA.

What this means

There will be a 22% charge on any interest paid on cash held within a non-cash ISA. This rate applies even if a saver is a higher or additional rate taxpayer. The personal savings allowance cannot be used to mitigate the charge.

The transfer restriction means surplus cash cannot be moved to a cash ISA to escape the 22% charge. To avoid the charge, cash will have to be invested or withdrawn from the ISA.

A non-cash ISA portfolio made up of 100% cash-like investments will not be permitted:

- Only money market funds (these are low risk, investing in highly liquid, short-term debt securities) will be treated as a cash-like investment.
- The existing ISA investment rules are unchanged, so investments such as short-dated UK gilts will not be treated as cash-like investments.

The 100% requirement does appear to present an easy loophole, since holding just a penny's worth of shares should circumvent the restriction.

65 and over

Savers aged 65 and over will continue to benefit from the current cash ISA limit of £20,000. Entitlement will apply from the start of the tax year in which a saver reaches 65.

From that point, the transfer restriction will no longer apply. The charge on interest earned on cash held in a non-cash ISA and the prohibition on 100% cash-like investments will, however, remain in place.

The government's factsheet on the ISA anti-circumvention rules is available from the link below:

https://www.gov.uk/government/publications/fiscal-events-2026-factsheets/isa-reform-2027-anti-circumvention-rules-factsheet

Profit and loss filing changes for micro-entities and small companies

The government has confirmed that micro-entities and small companies will have to file profit and loss (P&L) accounts with Companies House from 2028, but can then choose whether these accounts are made public.

The original intention was that changes would come in from April 2027, but, following stakeholder concerns, reform has been put back to April 2028.

Filing requirements

Both micro-entities and small companies will have to file a P&L account with Companies House from April 2028. However, there will be the option to opt out of publishing this information on the public register:

- Details of the opt out have not yet been published.
- Even if a company opts out of publishing its P&L account, HMRC (as is currently the case) and law enforcement will still have access to help identify fraud and tax evasion.
- All companies will have to file their annual accounts using commercial software, which is already the case for HMRC filings. The existing Companies House web and paper-based accounts filing routes are to be closed.

With HMRC already receiving a full set of accounts, the general response to the profit and loss option to opt out is that it is somewhat pointless; it will just mean more time and costs.

Given the existing HMRC filing requirement, companies should ensure that the filing software they use can also support the Companies House requirements.

Other changes

Some other reforms will also be brought in from April 2028:

- The option for companies to prepare and file abridged accounts is to be removed.
- The number of times a company can shorten its accounting reference period will be reduced; there are currently no restrictions on how often this can be done.

Companies House will contact all companies through their registered email address to tell them about the upcoming changes.

The government's report explaining the changes to accounts filing from April 2028 can be found from the link below:

https://www.gov.uk/government/news/companies-house-to-bring-in-changes-to-accounts-filing-from-april-2028

Writing your will? Remember to choose your executors with care

HMRC has published fresh information on the mechanics of collecting inheritance tax (IHT) on pensions.

In the October 2024 Budget, the Chancellor announced that most pension death benefits would become potentially liable for IHT from 6 April 2027. However, it was not until March 2026 that the relevant primary legislation was passed into law. Even that is not the end of the story, as HMRC now must pass regulations to make the new rules work, then consult on and produce "detailed guidance and other supporting materials". The final elements are not due until next spring, uncomfortably close to the April 2027 start date.

The protracted process reflects the complexities in developing a system that works for:

- The personal representatives (PRs) – normally the will-appointed executors,
- The pension scheme's administrators and trustees,
- The beneficiaries of the pension death benefits, lump sum and/or income, and
- HMRC, which could be demanding both IHT and income tax on the pension benefits.

At the end of May, HMRC issued an extensive 'technical note' setting out its view of the current state of play. This highlighted the significant new responsibilities placed on PRs:

IHT liability: The PRs will be primarily responsible for reporting on and paying any IHT due on pension benefits. However, once the pension scheme determines that an individual is entitled to a lump sum or a pension, that beneficiary also becomes jointly and severally liable. This means that if the PRs do not pay any IHT due, the beneficiary will have to.

Withholding funds: As anyone who has experienced estate administration will know, it takes time to track down the deceased's assets and their value at the date of death. To help cover this inevitable delay, PRs will be able to request that a pension scheme withholds up to 50% of a beneficiary's entitlement as a reserve against a potential IHT liability. The maximum withholding period is 15 months. However, a withholding notice cannot apply to beneficiaries classed as exempt (mainly surviving spouses and civil partners) nor to a limited range of excluded benefits (such as dependants' scheme pensions, joint life annuities and death in service payments).

The new duties for PRs mean that you might wish to review who you have appointed as your executors. If you have no will, then the changes to IHT have given you another reason for making one.

HMRC technical note on IHT on pensions is available from the link below:

https://www.gov.uk/government/publications/inheritance-tax-on-pensions-technical-note/technical-note-inheritance-tax-on-pensions

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