bgm bright grahame murray
CHARTERED ACCOUNTANTS

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Contents

Latest tax gap sets another record

The tax gap for 2024/25 sets another record at £59.2 billion, with small businesses accounting for some 62% of the taxes not collected.

The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid.

Upward trend

The tax gap for 2024/25 represents around 6.4% of the total tax due. Although the tax gap has been higher historically, it has generally increased throughout recent years; for example, for 2021/22, it was 5.7%.

HMRC, as is normally the case, has revised figures for previous years. When figures were released for 2023/24, the tax gap was shown as generally declining. However, the latest figures show the tax gap for 2023/24 at 6.0%, rather than the previous 5.3%, an increase of £6 billion.

Small businesses under scrutiny

In 2024/25, small businesses accounted for 62% of the tax gap, an increase of four percentage points since 2020/21. Such firms are the main culprits here, with HMRC estimating that around 45% of the corporation tax owed was not collected. No surprise then that identity verification has recently been introduced for company directors and persons with significant control.

Behaviour

The largest proportion of the tax gap comes from failure to take reasonable care. This is currently 35% – nearly £21 billion – increasing from 30% of the tax gap in 2020/21:

- HMRC blames failure to take reasonable care on a taxpayer's carelessness, negligence, or poor record-keeping, but the increasing complexity of the tax system and the deterioration in HMRC customer service also play a part.
- Add in taxpayer errors and more than half of the tax gap is now down to taxpayers who probably regard themselves as tax-compliant.

Actual evasion of tax only accounts for 12% of the tax gap, with tax avoidance standing at just 1% of the total. HMRC's summary details of the latest tax gap figures can be found from the link below:

https://www.gov.uk/government/statistics/measuring-tax-gaps/1-tax-gaps-summary

Business rates cuts for leisure businesses

Owners of public houses have faced significantly higher bills for business rates from April 2026. To partly offset the increases, the government announced a 15% discount for the current year and has recently announced a 20% discount for 2027/28.

The higher business rates costs have been generated as a result of a business rates revaluation and the removal of Covid-era relief.

Who qualifies?

For 2025/26, retail, hospitality and leisure businesses in England qualified for a 40% discount on their business rates:

- The 15% and 20% discounts are more restrictive, only applying for public houses, clubs and live music venues. The discounts are applied on top of any other available reliefs.
- Not surprisingly, owners of restaurants, cafés and hotels are disappointed about their exclusion from the latest discounts.
- Larger live music venues will not qualify for the 20% discount, with further details expected to be outlined in the Autumn Budget.

Almost 32,000 public houses, clubs and live music venues are likely to benefit from the 15% and 20% discounts, with the typical public house expected to save £1,100 in 2027/28.

For 2026/27, Scotland has given a 15% discount for retail, hospitality and leisure businesses, and Wales provides a similar discount for food and drink hospitality businesses.

Support for small businesses

For premises in England, 100% relief applies where the rateable value is less than £12,000, with tapered relief for properties valued up to £15,000.

Most English properties which have lost the retail, hospitality and leisure discount qualify for the Supporting Small Business Relief (SSBR) scheme. The calculations can be complicated, but, for example, the business rates rise for 2026/27 for a property with a rateable value between £20,001 (£28,001 in London) and £100,000 is capped at the higher of £800 and 15%. Caps also apply for 2027/28 and 2028/29.

However, for public houses, clubs and live music venues, their business rates bill will only increase by inflation for 2027/28 and 2028/29, with the newly announced 20% discount in addition to this cap.

Details of the 15% discount for 2026/27 can be found from the link below:

https://www.gov.uk/government/news/pubs-and-live-music-venues-relief

New first time buyer ISA on the cards

Although no date for its introduction has yet been announced, the government has recently provided some details for the new first time buyer individual savings account (FTB ISA), which is set to replace the lifetime ISA (LISA).

Essential differences

The LISA never garnered a large take-up, so its replacement has some fundamental changes:

- **Target:** The FTB ISA is for first-time property purchasers only, whereas the LISA can also be used to save money for retirement.
- **Age limit:** To open a LISA, a saver must be 18 to 40, with no subscriptions allowed over age 50. With the FTB ISA, the only requirement is that a saver be 18 or over; there is no upper age limit.
- **Bonus:** With the LISA, the government bonus is paid monthly, so the saver benefits from interest or investment growth on bonus payments. However, with the FTB ISA, the bonus will only be paid when a property is purchased.
- **Withdrawal penalty:** The LISA comes with a withdrawal penalty of 25%, meaning a saver will end up with less than they paid in. There will be no penalty for withdrawing funds from the FTB ISA.

The government has said that any change to the property price cap of £450,000 will apply to both products.

Interaction

A saver who already has a LISA, or opens one before the FTB ISA is introduced, will be able to continue to contribute to it indefinitely. Although it will not be possible to transfer a LISA into the FTB ISA, a saver will have the choice each tax year whether to save into a LISA or FTB ISA. It will then be possible to combine the funds held in both accounts when making a property purchase.

Although there is no withdrawal penalty for the FTB ISA, the timing of the government bonus would seem to give the LISA a distinct advantage, although full details of the new product have yet to be announced.

The government's guide to lifetime ISAs can be found from the link below:

https://www.gov.uk/lifetime-isa

Unmarried couples: major legal reforms proposed

The law in England and Wales is moving a step closer to treating married and unmarried couples in a similar way.

"Over 3.5 million couples live together without getting married or entering a civil partnership, a number that has more than doubled over the past three decades. Despite this, cohabiting couples and their children have very limited financial protections should a relationship end."

So says the foreword to A fairer end to relationships, a 100-page paper from the Ministry of Justice that makes proposals on divorce for married couples and civil partners, and separation and intestacy for unmarried couples in England and Wales. The most significant proposals are those affecting unmarried couples, for whom there is currently much less legal protection than for married couples. For example, while intestacy rules start with the surviving spouse as the main beneficiary, the survivor of an unmarried couple is ignored.

The new regime for unmarried couples would automatically apply to adults in "long-term, committed and interdependent relationships" who have lived together for at least three years or live together and share a child. However, there would be an option to opt out where both parties agree, subject to certain safeguards.

Under the proposed framework, the starting point would be that each person keeps what they legally own. The court would then consider the parties' needs, with the aim that these should be met in a way that enables both parties to "transition to independence… as far as resources allow". This limited definition of needs would mean that cohabitants cannot receive a more favourable outcome than spouses in comparable circumstances. Children's welfare would be the primary consideration of the court, ensuring their welfare is protected where resources are limited.

While the settlement mechanisms would be similar to those currently applying on divorce, the goal would be to achieve a clean break wherever possible, with maintenance limited to exceptional circumstances, such as long-term ill health.

On intestacy, the proposal is that rights of inheritance should be extended to 'qualifying cohabitants'. The minimum duration for qualification would not necessarily be the same as applied on separation and might be longer.

If you are in an unmarried relationship, do not wait for the law to change, which could take years – if it happens at all. Make sure your legal and financial planning works within the existing legal framework, which does not recognise common-law marriage.

The government's proposal on reforms for unmarried couples can be read from the link below:

https://www.gov.uk/government/news/millions-of-unmarried-couples-to-get-stronger-rights

Stablecoins to escape CGT

Stablecoins are currently taxed in the same way as other cryptoassets. However, this is set to change from April 2027, when eligible stablecoins are expected to be treated similarly to money for tax purposes.

Why stablecoins?

Stablecoins are currently dominated by US dollar-based products, with stablecoins worth over $300 billion in circulation. They are extremely convenient for investors who wish to park their funds while buying and selling other more volatile cryptoassets.

Stablecoins are a good way to pay for goods and services, avoiding most of the costs associated with traditional payment methods such as credit cards. This is especially the case with cross-border transactions. Around 1.2 million individuals engage in stablecoin transactions, and the changes will make the tax framework easier to understand.

Eligible stablecoins

An eligible stablecoin will broadly be defined as a crytoasset that maintains a stable value in relation to a fiat currency. Fiat currency or other assets will need to be held for the purposes of supporting the stable value.

Cryptoasset disposals

Most disposals of cryptoassets are subject to capital gains tax (CGT). There is a disposal if an individual:

- sells a cryptoasset;
- exchanges one type of cryptoasset for a different type of cryptoasset;
- uses cryptoassets to pay for goods or services; or
- makes a gift of cryptoassets to another person (unless it is to their spouse or registered civil partner).

However, there is no disposal if, for example, an individual simply moves cryptoassets between different wallets.

Tax status changes

From 6 April 2027, the disposal of eligible stablecoins by an individual will be exempt from CGT. Although most stablecoins are non-interest bearing, should any interest-like returns be received from holding eligible stablecoins, this will be treated as savings income subject to income tax. The personal savings allowance of £1,000 or £500 will potentially be available.

The government's policy paper on the taxation of stablecoins can be found from the link below:

https://www.gov.uk/government/publications/tax-treatment-of-stable-coins/taxation-of-stablecoins

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