



## Headlines

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## Key Payroll Changes Employers Should Prepare for in 2026/27

As the end of the 2025/26 tax year approaches, HMRC has confirmed several payroll changes that employers need to prepare for ahead of the 2026/27 tax year. These updates affect areas such as statutory sick pay, the state pension age, student loan repayments and small employer relief. Reviewing payroll processes early will help ensure compliance and avoid errors once the new rules take effect.

### State Pension Age Increase

From 6 April 2026 the state pension age will begin rising from **66 to 67**. The change will be introduced gradually over a two year period. Employees born between **6 April 1960 and 5 March 1961** will reach state pension age somewhere between age 66 and 67 depending on their exact date of birth. This matters for payroll because once employees reach state pension age they stop paying employee National Insurance contributions. Employers should therefore check when affected employees will reach pension age so that the correct National Insurance category letter is applied.

### Statutory Sick Pay Rules Changing

Significant changes are being introduced to statutory sick pay (SSP) from **6 April 2026**.

Under the new rules:

- Employees will be eligible for SSP **from the first day of sickness**
- The current **three waiting days will be removed**
- Employees will **no longer need to be sick for four consecutive days to qualify**

This means that even a **single day of sickness could trigger SSP**.

The amount payable will be the **lower of 80% of an employee's average weekly earnings or £123.25 per week**.

Employers may need to review absence reporting procedures and payroll systems to ensure SSP is calculated correctly from day one.

### Small Employers' Relief Increase

Businesses that qualify for **small employers' relief** will see a slight increase in the amount they can recover. To qualify, an employer must have had a **Class 1 National Insurance liability of £45,000 or less** in the previous tax year before applying the employment allowance. Currently, eligible employers can reclaim **108.5% of statutory parental payments**, including statutory maternity and paternity pay. From **2026/27**, this rate will increase to **109%** to help offset the cost of employer National Insurance contributions.

### New Student Loan Plan Introduced

Another payroll update for 2026/27 is the introduction of **Plan 5 student loan repayments**. Until **5 April 2026**, if an employer does not know which student loan plan to use,

**Plan 1 should be applied by default** until HMRC issues a start notice. From **6 April 2026**, however, **Plan 5 will become the default student loan plan** where the correct plan type is not yet known.

Employers should ensure payroll software is updated to accommodate the new repayment plan.

### Final Thoughts

Although none of these changes are individually complex, together they will require payroll teams to review systems and employee records before the start of the 2026/27 tax year.

Employers should:

- Check employee birth dates for state pension age changes
- Update payroll systems for the new SSP rules
- Confirm eligibility for small employers' relief
- Prepare for the introduction of Plan 5 student loans

Preparing early will help ensure payroll runs smoothly when the new tax year begins.

## Are Buy-to-Let Companies Worth the Hype?

Landlords have faced a series of tax changes over the past decade, from restrictions on mortgage interest relief to frozen tax thresholds. As a result, many advisers and online "property experts" now claim that the best tax strategy is to hold rental properties through a limited company. But while this approach can work in certain circumstances, it is not automatically the most tax-efficient option.

### The growing trend

Recent statistics show that more landlords are choosing the corporate route. Over **66,000 property companies were incorporated in 2025**, reportedly the highest level in a decade. This surge has been linked to higher mortgage rates and ongoing tax changes affecting individual landlords.

However, the rise in company structures does not necessarily mean they will save tax. The right structure depends heavily on personal circumstances, income levels and long-term plans.

### Corporation tax versus income tax

One reason landlords consider companies is that **corporation tax rates can be lower than personal income tax rates**. On the surface, this makes company ownership appear more attractive.

But the comparison is often misleading. When profits are taken out of a company, they are normally paid as dividends or salary. At that point, **personal tax applies**, which can eliminate or even reverse the apparent tax advantage.

For many landlords who rely on rental income to fund their lifestyle, this second layer of tax means they may end up **paying more tax overall through a company**.

Basic rate taxpayers or those with little other income are therefore often better off holding property **personally rather than through a company**.

### Mortgage interest relief differences

One key difference between personal and corporate ownership is the treatment of mortgage interest.

- **Companies** can deduct mortgage interest fully when calculating profits.
- **Individuals** no longer receive full relief. Instead, they receive a **basic rate tax credit of 20%**.

At first glance, this appears to favour companies. However, when dividend tax is taken into account, the outcome can still favour personal ownership depending on the landlord's tax band and borrowing levels.

### When a company structure can work?

Using a company can be advantageous if the landlord **does not need to withdraw the rental income each year**. For example, higher-rate taxpayers who reinvest profits within the company may pay significantly less tax upfront. The retained profits can then be used to build a larger property portfolio or reduce borrowing.

Later in life, when income falls and the individual becomes a basic-rate taxpayer, profits can be extracted as dividends at a lower tax rate. Over time this can produce meaningful tax savings.

### Considering long-term plans

Future plans for the properties are another important factor.

If the goal is to sell properties once their value increases, the tax treatment differs:

- **Individuals** pay capital gains tax at **18% or 24%**.
- **Companies** pay **corporation tax (19% to 25%)** on gains.

However, if the owner wants to access those gains personally, further dividend tax may apply, creating a second tax charge.

On the other hand, if the intention is to **pass properties to the next generation**, holding them in a company may make succession planning easier.

### The key takeaway

There is no universal answer. A buy-to-let company can be tax-efficient in some cases, particularly for higher-rate taxpayers who reinvest profits rather than withdrawing them.

However, landlords who depend on rental income to fund their living expenses will often **pay less tax by owning properties personally**.

Before restructuring or purchasing property through a company, landlords should run detailed calculations based on their income, borrowing levels and long-term plans. The right structure should be driven by personal circumstances rather than property market trends.

## When Is the New 40% First-Year Allowance Beneficial?

A new **40% first-year allowance (FYA)** for capital expenditure came into effect on **1 January 2026**, providing businesses with a faster way to claim tax relief on certain capital investments. The allowance applies to both companies and unincorporated businesses and is designed to fill gaps where other capital allowances may not be available.

### What the new allowance covers?

The new 40% FYA applies to **qualifying expenditure on new plant and machinery** that would normally be eligible for main-rate writing down allowances (WDAs). Most plant and machinery used in a business falls into this category.

Normally, if expenditure does not qualify for a first-year allowance, it is placed into a capital allowances pool and tax relief is given gradually. Relief is typically given at **18% per year**, although the main rate will reduce to **14% from 6 April 2026**, making immediate allowances even more valuable.

### How it compares with other allowances?

Businesses already have several capital allowance options available:

- **Annual Investment Allowance (AIA)**  
Provides 100% relief in the year of purchase but is limited to £1 million per year. It also covers both new and second-hand assets.
- **Full expensing (companies only)**  
A 100% first-year allowance for new main-rate plant and machinery with no spending limit.
- **50% first-year allowance for special rate assets**  
Applies to certain assets such as integral building features, lifts, or solar panels.

Because of these existing reliefs, the new 40% FYA may be **less relevant for many companies** that can already use AIA or full expensing.

### Where the new allowance becomes useful?

The new allowance is most valuable in situations where other reliefs cannot be used. For example:

- **Assets purchased for leasing** do not qualify for full expensing. Previously these assets could only claim standard writing down allowances. They can now qualify for the **40% FYA**, giving much faster tax relief.
- **Certain partnerships or LLPs** cannot claim the Annual Investment Allowance. In these cases the new 40% allowance provides an opportunity to claim a significant portion of the expenditure immediately.

### Example: LLP investment

Consider a limited liability partnership that has a corporate member. Because of the corporate member, the LLP is not eligible for the AIA.

If the LLP spends **£200,000 on plant and machinery**, it can claim **£80,000 (40%) as a first-year allowance** under the new rule. The remaining balance will receive writing down allowances in future years.

Without the new allowance, the business would only have received **18% relief in the first year**, making the new rule a significant improvement in cash flow and tax timing.

### Important exclusions

Some assets do not qualify for the new allowance:

- **Cars do not qualify** for the 40% FYA, AIA, full expensing or the 50% allowance.
- However, **new electric cars can still qualify for a separate 100% first-year allowance**.

### Final thoughts

The new 40% first-year allowance is intended to accelerate tax relief where other capital allowance regimes are not available. While companies often benefit more from full expensing or the AIA, the new allowance is particularly valuable for partnerships, LLPs with corporate members, and businesses purchasing assets for leasing.

Before claiming the allowance, businesses should review which relief gives the best outcome. In many cases, a combination of different capital allowances can be used to maximise tax efficiency.

## HMRC to Launch Advance Assurance Pilot for R&D Tax Claims

HMRC has confirmed that a new **targeted advance assurance service** for research and development (R&D) tax credits will be introduced as a pilot programme in **spring 2026**. The initiative is designed to give smaller businesses more certainty about key aspects of their R&D claims before they submit them.

### Why the pilot is being introduced?

R&D tax relief has faced increased scrutiny from HMRC in recent years, with a significant rise in compliance checks and rejected claims. One of the main challenges for companies is determining whether their activities and costs qualify under the complex R&D tax rules.

The new advance assurance pilot aims to address this by allowing businesses to obtain **early confirmation from HMRC on specific elements of their claim**. This should help reduce uncertainty and lower the risk of claims being challenged later.

### Who the pilot is aimed at?

The scheme will primarily support **small and medium-sized enterprises (SMEs)** preparing to claim R&D tax relief. By seeking assurance in advance, companies can confirm whether their planned claim meets HMRC's requirements before including it in a tax return.

This approach is intended to provide businesses with more confidence when investing in innovation and development projects.

### Areas covered by advance assurance

Under the pilot, companies will be able to request HMRC's view on four key areas that frequently cause uncertainty:

- Whether a project meets the **definition of R&D for tax purposes**
- Whether **overseas expenditure** can qualify for relief
- Which party can claim relief for **contracted-out R&D work**
- Whether the company qualifies for an **exemption from the PAYE and National Insurance cap**

These topics were selected following consultation because they represent some of the **most complex and high-risk aspects of R&D claims**.

### What this means for businesses?

For companies planning to claim R&D relief, the new service could help reduce compliance risk and improve certainty during the claims process. Businesses will be able to clarify complex technical issues with HMRC before submitting their claim, potentially avoiding disputes or delays later.

However, as this is initially a pilot programme, access may be limited and the scheme could evolve depending on how it performs.

### Final thoughts

The advance assurance pilot represents a step towards greater transparency in the R&D tax relief system. For SMEs undertaking qualifying innovation projects, early engagement with HMRC could make the claims process more straightforward and reduce the likelihood of unexpected enquiries.

Businesses considering R&D claims in 2026 should monitor developments around the pilot and assess whether seeking advance assurance could help strengthen their claim.

## Interesting Reads

[What is a Limited Company? A Comprehensive Guide](#)

If you are considering the most suitable structure for your business, or planning a global structure that includes a UK limited company, this guide will give you a clear and comprehensive overview.

[Cryptocurrency for Beginners: A Complete Guide](#)

Are you new to crypto? Our cryptocurrency for beginners guide will introduce the basics, explain what cryptocurrency is, outline its different types, walk you through how to start investing, and share reasons why people find it worthwhile.

[The Importance of Accounting in the Tech Business](#)

Tech founders often sideline accounting for product development and growth. However, robust accounting, ideally led by a chartered accountant experienced in tech, is vital for navigating volatility and ensuring sustainable growth.



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