



Headlines

- BADR Rate Increase to 18%: What It Means for Business Sales
- Could HMRC Reclassify Your Subcontractors as Employees?
- Corporation Tax Late Filing Penalties Set to Double from April 2026
- Payroll Changes for 2026/27: What Employers Need to Prepare For



Clear House Accountants
Business Accountants and Advisors

SUBSCRIBE

View our comprehensive Library of Informative You-tube videos.

BADR Rate Increase to 18%: What It Means for Business Sales

Business Asset Disposal Relief (BADR) has long been a key tax relief for business owners selling their companies. However, the relief continues to become less generous, with another change confirmed from April 2026.

From **6 April 2026**, the CGT rate on disposals qualifying for BADR will increase from **14% to 18%**, further reducing the benefit available to entrepreneurs on exit.

Why this matters

BADR applies to disposals of:

- Shares in trading companies
- Entire businesses
- Assets used in a business

Where conditions are met, it allows gains to be taxed at a reduced rate, subject to a **lifetime limit of £1 million**.

With the rate now rising again, the tax cost of selling a business is increasing. For many owners, this could translate into a significant reduction in net proceeds.

Timing is critical

For capital gains tax purposes, the timing of a disposal is not based on when cash is received or when shares are transferred. Instead, it is based on the date the **contract becomes unconditional**.

This is the point where:

- All key terms are agreed
- Both parties are legally bound
- There are no outstanding conditions that must be satisfied

Even if completion happens later, the tax point is fixed at this earlier date.

In simple terms, if a contract becomes unconditional before 6 April 2026, the **lower 14% rate may apply**, even if completion happens afterwards.

Anti-forestalling rules to watch

The position is not always straightforward. Anti-forestalling rules have been introduced to prevent taxpayers from artificially locking in lower tax rates.

These rules mean:

- If a contract is agreed before the rate increase but completes after it
- And the timing was influenced by a desire to secure a tax advantage

Then the **higher 18% rate may still apply**.

There is an exception where the transaction was entered into for genuine commercial reasons and not to obtain a tax advantage. In such cases, a claim can be made to disapply the anti-forestalling rules.

For smaller gains, no claim is required where the total gain is below **£100,000**.

Practical implications for business owners

If you are considering selling your business or shares:

- **Review your timeline carefully.** The difference between exchanging contracts before or after April 2026 could be material
- **Ensure contracts are genuinely unconditional** if relying on earlier tax rates
- **Avoid artificial structuring** purely to secure a lower rate, as this may be challenged
- **Take advice early**, especially where deals are close to the tax year boundary

Final Thoughts

BADR still provides valuable relief, but its benefit is steadily reducing. With the rate increasing to 18% and tighter scrutiny around timing, business owners need to plan exits more carefully than ever.

The key takeaway is simple. The tax rate is often determined not by when you complete a deal, but by when you become legally committed to it. Getting that timing wrong could mean paying more tax than expected.

If you are planning a disposal around April 2026, early planning could make a meaningful difference to your final outcome.

Could HMRC Reclassify Your Subcontractors as Employees?

If your business regularly uses subcontractors, especially the same individuals across multiple projects, you may be wondering whether this creates a risk of HMRC reclassifying them as employees. This is a common concern, particularly in sectors like construction where subcontracting is standard practice.

The short answer is that **using the same subcontractors repeatedly does not automatically make them employees**, but there are important risks to manage.

Why this matters

Under the Construction Industry Scheme (CIS), businesses deduct tax from subcontractor payments unless gross payment status applies. However, operating CIS does not remove the need to assess **employment status**.

If HMRC successfully argues that a subcontractor should have been treated as an employee, the consequences can be significant:

- Liability for unpaid PAYE tax
- Employer and employee National Insurance contributions
- Interest and penalties

This can quickly become a costly issue if not managed properly.

Using the same subcontractors is not the issue

It is normal for businesses to work with the same subcontractors over time. Reliability and familiarity are good commercial reasons to do so.

HMRC's own guidance confirms that **employment status must be assessed on a contract-by-contract basis**. Simply offering repeat work, even over several years, does not in itself indicate employment.

Where the real risk lies

The risk arises where **the working arrangements resemble employment**, rather than self-employment.

HMRC will look at factors such as:

- Whether there is an expectation of ongoing work
- The level of control over how the work is done
- Whether the subcontractor can send a substitute
- How integrated the individual is within your business

Repeat engagements can increase scrutiny, as HMRC often finds misclassification in long-term arrangements.

Practical steps to protect your position

To reduce the risk of reclassification, businesses should take a structured approach:

Avoid ongoing commitments

Do not create contracts, written or verbal, that promise future work. Each job should stand on its own.

Use separate contracts for each project

Issue a new contract for each engagement, even if the terms are largely the same. This reinforces the project-based nature of the work.

Ensure contracts reflect reality

Do not include clauses simply to support self-employed status if they are not genuine. For example, a substitution clause should only be included if it could realistically be used.

Monitor working arrangements

Make sure day-to-day working practices match the contract terms. If reality drifts from the agreement, HMRC will focus on what actually happens in practice.

Keep detailed records

Maintain clear records of when and where subcontractors worked, and under what terms. This can be critical evidence if HMRC raises questions.

Final thoughts

Using subcontractors regularly is not a problem in itself. The key issue is whether each engagement is genuinely structured and operated as a **self-employed relationship**.

HMRC will always look beyond labels and contracts to the actual working arrangement. Businesses that take the time to structure contracts properly, align them with real working practices, and keep good records will be in a much stronger position if their arrangements are ever challenged.

If you rely heavily on subcontractors, it is worth reviewing your contracts and processes now to ensure they stand up to scrutiny.

Corporation Tax Late Filing Penalties Set to Double from April 2026

Businesses that delay filing their corporation tax returns will face **significantly higher penalties** from April 2026, as HMRC tightens its stance on late submissions.

From **1 April 2026**, all corporation tax late filing penalties will **double**, increasing the financial risk for companies that miss deadlines.

What are the new penalties?

For returns due on or after 1 April 2026:

- Initial late filing penalty increases from £100 to **£200**
- If the return is more than three months late, the penalty rises to **£400**

For repeat offences, the penalties escalate further:

- After **three consecutive late filings**, penalties increase to **£1,000** (initial) and **£2,000** (after three months)

These changes represent a material increase in cost, particularly for businesses that have a history of late submissions.

Why this matters

Late filing penalties are separate from interest charges on unpaid tax. Even if your corporation tax has been paid, failing to submit the return on time will still trigger penalties.

With the amounts now doubling, even a short delay could result in avoidable costs.

Key deadlines to remember

For most companies:

- Corporation tax must be paid within **9 months and 1 day** after the end of the accounting period
- The corporation tax return must be **filed within 12 months** of the period end

Missing the filing deadline, even if payment has already been made, will still result in penalties.

Practical steps to avoid penalties

To stay compliant and avoid increased costs:

- **Prepare accounts early** to allow time for tax computations and review
- **Track filing deadlines carefully**, especially if you have multiple entities
- **Submit draft returns where necessary**, rather than waiting for final adjustments
- **Avoid repeated late filings**, as penalties escalate quickly

Final thoughts

HMRC's decision to double penalties reflects a broader move towards stricter compliance and enforcement. For businesses, the message is clear: late filing is becoming more expensive.

Ensuring timely submission of corporation tax returns is now more important than ever. Even small delays could lead to significantly higher penalties from April 2026 onwards.

If you are unsure about your deadlines or need support with your filings, it is worth reviewing your processes now before the new rules take effect.

Payroll Changes for 2026/27: What Employers Need to Prepare For

As the 2025/26 tax year comes to an end, HMRC has confirmed several important payroll changes that will take effect from **6 April 2026**. While each change may seem manageable on its own, together they will require employers to review payroll systems, employee records and processes.

State pension age increase

From April 2026, the **state pension age will begin rising from 66 to 67**. This change is being phased in over two years.

Employees born between **6 April 1960 and 5 March 1961** will reach state pension age at different points between age 66 and 67, depending on their date of birth.

This has a direct payroll impact. Once an employee reaches state pension age, they stop paying employee National Insurance contributions. Employers will need to ensure the correct **National Insurance category** is applied at the right time.

Statutory sick pay from day one

One of the most significant changes is to statutory sick pay (SSP).

From 6 April 2026:

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

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

The amount payable will be the **Lower of 80% of average weekly earnings or £123.25 per week**.

Employers may need to update absence policies and payroll systems to reflect this change.

Small employers' relief increase

Small employers' relief is available where the business had a **Class 1 National Insurance liability of £45,000 or less** in the previous tax year.

Currently, qualifying employers can reclaim **108.5% of statutory parental payments**. From 2026/27, this will increase slightly to **109%**, helping offset **employer National Insurance costs**.

Introduction of Plan 5 student loans

From 6 April 2026, a new **Plan 5 student loan** will enter repayment.

A key change for payroll is the default position:

- Until 5 April 2026, **Plan 1** is used where the correct plan is unknown
- From 6 April 2026, **Plan 5 becomes the default** until HMRC confirms otherwise

Payroll systems and processes should be updated to ensure the correct deductions are applied.

Final thoughts

The upcoming payroll changes are not complex individually, but they will require preparation.

Employers should:

- Check employee dates of birth for state pension age changes
- Update payroll systems for new SSP rules
- Confirm eligibility for small employers' relief
- Ensure systems can handle Plan 5 student loan deductions

Taking action now will help avoid errors, ensure compliance and keep payroll running smoothly from April 2026 onwards.



Copyright © 2026 Clear House Accountants, All rights reserved.

Our e-mail address is:

clearhouse@chacc.co.uk

Want to change how you receive these emails?

You can [unsubscribe from this list](#).