



PKF
Francis Clark

Landwise

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Introduction

Welcome to the Spring/Summer 2026 edition of Landwise and as ever in this bumper addition hopefully there is at least a few topics and articles that are of direct interest to you and makes you think a bit and as ever if there are any questions arising then please come back to us as we are always keen to assist.

This edition has been written at a time where, after many concerns, consideration and lots of talking we have entered into the new world in terms of inheritance tax (IHT) which has particularly impacted the family farm and landed estate.

John Endacott's article on page 14 outlines the current IHT position and whilst the concessions prior to Christmas have seen the tax exposure reduce or be removed completely for some the position has not been resolved for everyone. For those with higher value businesses or large rural landowners the liability is now a real one and there remains a need to plan, especially if profitability does not match the asset values.

The proposed changes for IHT on pensions from April 2027, will present more challenges that need careful consideration, especially for those with land or business assets held in Self Invested Pension Plans (SIPP's).

So, does that mean that succession conversations can be put back on the "too difficult" pile?

The tax changes have clearly acted as a catalyst for many succession conversations over the last year and for some the late concession could mean that the tax angle alone might be of less concern. However, to that I would argue that for some there was a very near miss that in hindsight could, or

should, have been avoided if the issue of succession was dealt with on a more timely basis.

It is essential good succession conversations are continued, and plans are implemented to ensure that the industry does not find yourself in that position again.

As I write this article the Iran conflict continues and the Strait of Hormuz remains closed and this creates further turmoil and uncertainty to the global economy.

This conflict has impacted key costs of inputs, especially fuel and fertiliser, that impact the agricultural sector greatly, and all of this is at a time where farm gate prices for cereals and milk are not where you might like them to be and this is clearly of great concern. Mike Butler looks at this further and the importance of managing cashflow in his article on page 6.

After a wet winter, it seems like the spring has been kinder with the weather being a mixture of sunshine and showers, I guess what spring should be like.

I've spoken to many farmers in the South West and things are looking pretty good with most up to date in terms of planting, the crops in the ground are looking good, the cattle are out, the lambs are growing on well and the first cut of silage is in the clamp. Perhaps not surprisingly I do find that with better weather and longer days people tend to feel happier and more optimistic and hopefully this can continue into what will be a good summer and some of the uncertainties outlined above can be resolved.

Hopefully we can grasp some of this optimism and good weather as we all meet up at the various shows in the forthcoming weeks

Show season is my favourite time of the year, where the industry unites as one, you can meet up with friends that you might not see from one show to the next and celebrate everything that is good with British agriculture.

This year, our team will be attending the Devon County Show, the Royal Cornwall Show, Badminton Horse Trials and for the first time Cereals, being held at Diddly Squat Farm courtesy of a certain Mr Clarkson, as well as a number of local smaller shows.

Please pop in and see us at these events as it is always great to catch up and see everyone.

Happy reading!



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Managing cashflow

Cashflow and profitability overtake IHT concerns

Farmers have experienced a torrid time over the last eighteen months dealing with proposed changes to the inheritance (IHT) reliefs for both agricultural and business property but, with some easing to the extent of those onerous changes coming by way of the proposed government amendment to their own draft legislation issued on 23 December 2025, many farmers and business owners will now be taken out of the scope of IHT on their business interest.

Whilst there are those that of course remain exposed to various levels of Inheritance Tax, perhaps for those larger business interests, the main focus now turns to the significant issues that pretty much all farmers are facing when it comes to profitability and therefore cashflow.

Paying higher tax on previous year when this year is a challenge

For many businesses, particularly those that trade as partnerships or sole traders, 2025/26 will see them potentially still have a reasonable reported profit for tax purposes with that tax becoming payable throughout calendar year 2026 as part of their January and July 2026 payments on account and potentially a balance of tax due on 31 January 2027.

These payment dates fall precisely at a time when cashflow is likely to be tight as a result of the more difficult trading in the current year.

Weather conditions remain challenging, as do some of the direct costs, particularly fuel and other overheads which seem to continue to rise and, whilst there has been some reprieve

in elements of direct costs such as feed costs for those in the livestock sector, the biggest issue of course is the fall in farm gate prices for the various commodities produced on farms.

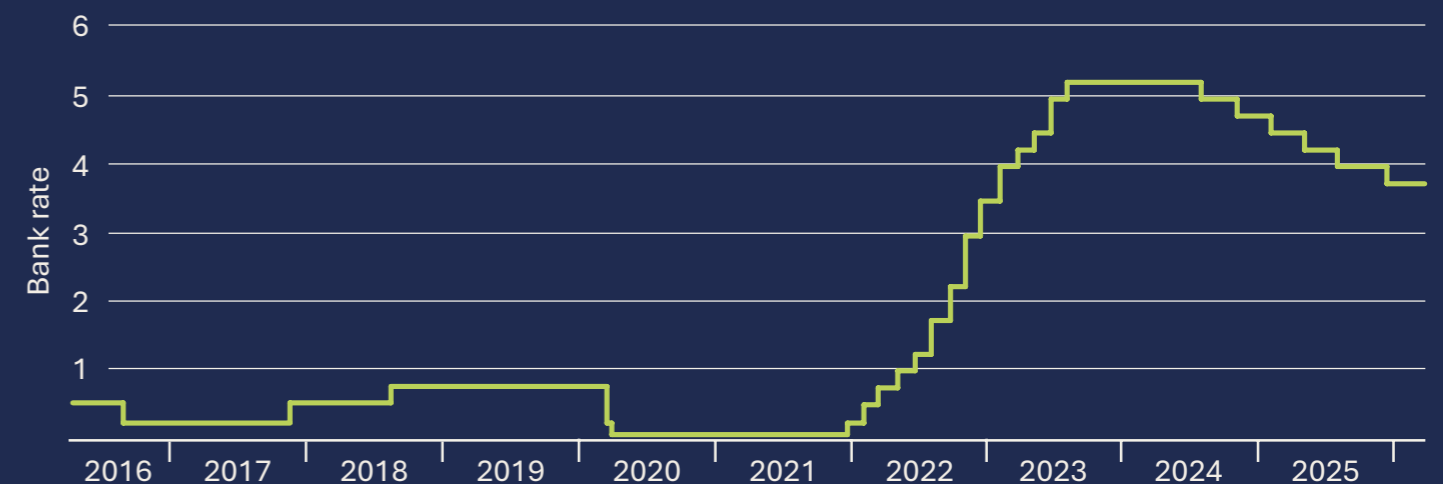
The conflict with Iran has exacerbated the costs challenges beyond all reasonable expectation and, with no sight of the end to this conflict, concerns are growing daily

Yields have also been a challenge in the arable sector and so they have faced the triple whammy of lower yields, lower farm gate prices, and the withdrawal of the Basic Payment Scheme with, in some cases, little opportunity to replace the BPS lost income with alternatives such as SFI. One must not also forget the challenges of higher interest rates and on so many occasions, farmers, and perhaps those that advise farmers, fail to take into account the amount of capital tied up in a business and therefore, with higher interest rates, the cost of that capital.

Often, we see businesses looking to take on additional land, for example, where they factor

in the output, direct costs and an element of overheads when considering how much they can tender for rent. However, what we also see is a complete disregard for the cost of capital required to fund an expansion and is this is particularly relevant when tendering for FBTs or considering acquiring land where not only the cost of capital to fund the acquisition is relevant but also the cost of capital to fund the initial cropping to the point of the first harvest or in the case of livestock, to expand the livestock to the point that income then starts to be delivered.

Below is a graph showing the interest rate movements over the last ten years and you can see the dramatic increase over the last two years in particular. Whilst interest rates have dropped off, at the point of penning this article, there is risk that interest rates could well rise slightly as a result of the conflict in Iran as governments digest the likely consequences of the resulting inflationary pressure. We hope that downward trend in interest rates will however resume shortly.



Managing cashflow

Banking – an ever more complex and challenging environment

As accountants specialising in the rural and landed estates sector, we see a variety of approaches when it comes to banking support.

There are certainly those funders who are extremely keen to do business and support both working capital needs and specific projects.

On the other hand, it is certainly true to say that, in certain quarters at least, resources available to agri businesses in terms of bank manager time has become much more limited and, as a result, when there are occasions that you need to have that support, speak to a experienced bank manager and gain decisions on lending needs, an increasing number of our farmers find that the position is frustrating.

Of course, banks themselves have a greater responsibility when it comes to lending and in particular their focus on debt servicing abilities at a time when interest rates are higher and incomes are lower is particularly critical.

For many farming businesses, there are plenty of assets against which to secure borrowing but that is only one of the typical covenants that banks have to consider. The ability to service debt is often more important to them and that is not an unreasonable approach also for the farmer who, after all, does not want to over-borrow to the point that they then get into financial difficulties. In simple terms, you need to know you have got enough headroom to service debt even if financial performance may deviate from your ideal plans.

Identifying cashflow issues earlier and seeking advice

It is important farmers identify the potential for cashflow issues early and seek professional advice.

Whilst often it can seem daunting to have to formally consider planning for the future, including production of cashflows and budgets as well as historic management accounts, it is these steps that a bank will expect to see if you do need to raise finance or review your existing lending facility.

It is also important that you, as a business owner, have confidence that your business can be sustainable even in a tricky financial period and so this is good discipline in any event. Simply hoping that things will get better is not a preferred solution and is certainly not a solution that banks will rely upon if additional lending is needed.

The benefit of specialist lending support

We are lucky here at PKF Francis Clark to not only have a highly experienced rural and landed estates team but also a group of individuals who are focused solely on supporting with refinancing, dealing with a variety of lenders and working with our farming clients to make sure that their cashflow needs and their lending requirements are met.

Not all firms are blessed to have this facility and a number of the individuals working in this particular team are experienced in retail banking, including the specialist rural sector and therefore provide a valuable insight into how banks operate.

If you feel as though you would benefit from proactive business advice, including support for financing and cashflow, then do reach out using the contact details at the end of this newsletter.

Saving tax is still a critical opportunity not to be missed

It goes without saying that minimising your tax liability is critical to maximising the amount of profit (and therefore cash) retained within a business.

Where businesses have experienced a period when they have paid higher taxes, it may be that the availability of farmers averaging in the case of partnerships and sole traders can be implemented in order to get tax back from earlier years.

In the case of companies, strategic planning of capital expenditure, particularly expenditure that attracts 100% tax relief, could result in a tax loss in a year following a higher profit year and, like partnerships and sole traders, companies have the ability to carry a tax loss back a year and recover tax from that earlier period.

Every year all businesses should be thinking about their accounting profit but also their taxable profit ahead of the year end not only to understand their likely tax liability for that year but whether or not they can access tax refunds for those earlier periods.

It is understood that, particularly when financial pressures exist, farming businesses will want to try to avoid unnecessary costs incurred on professional fees but, I would suggest that really good advice on tax mitigation and advising on cashflow management, as well as refinancing and supporting you with bank dealings is possibly one of the best areas of advice that you can gain from!



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On the ground

With Martin Rossiter



For those who have not met you yet, how would you describe what you do?

I am a partner in our agriculture and landed estates team in our Salisbury office. I have over 25 years' experience advising rural family businesses.

I look after farmers and estates, dealing with accounts, taxation, and general business advisory. This includes day to day challenges as well as more longer-term plans and strategic planning.

Coming from a farming background I have a genuine understanding of the sector, and I like to think that clients can come and talk to me about anything!

What challenges are farming and estate clients bringing to you most often right now?

The past year has been extremely challenging, dealing with the changes to the inheritance tax (IHT) legislation. This has taken up a huge amount of time dealing with planning for the future, talking to families, and helping them make decisions.

In the immediate future the uncertainty over cost of inputs, especially the price and availability of fuel and fertiliser is causing concerns with it immediate hit to cash flows.

Which diversification projects are you seeing work well at the moment?

There are a few solar projects, which once up and running are yielding well. Dog walking fields and padel courts are very much the thing of the moment.

Biodiversity net gain (BNG) is being talked about a lot, but we have not seen many projects get over the line yet.

How do you help farming families approach sensitive succession discussions?

I try and explain things in a way that everyone can understand the issues. The key thing is for the family to communicate, talk to each other about their plans and work through any issues. It is not always easy, but much better to deal with these things now rather than later.

Before a client makes a big business decision, what is the key thing you urge them to consider?

I think it's important that clients think about the immediate impact of the decision. There are a lot of decisions currently being made for IHT, for instance. These will help to reduce tax on death if the planning works, but equally it is important that individuals feel comfortable with their decisions, that they understand what they are doing, that it is not too complicated and that they still have enough income to live on. I find clients prefer to keep things as simple as possible.

What drew you to specialise in agriculture, and what keeps you passionate about the sector?

Whilst not directly living on a farm, lots of my family are farmers. So, as a child we were often visiting family farms. I used to spend time on my uncle's farm in Devon and always loved the farming life. This led me to study agriculture at university, and I then fell into accountancy.

No day is the same and it is an ever changing and developing industry. I have always enjoyed working with farmers and helping them with their challenges and this remains so still today.

On a lighter note - if you were not in accountancy, what countryside-themed job would you choose?

I love being outdoors, particularly in the hills and mountains. So, assuming I can just choose anything I think something like looking after a Scottish Island would be fun.

Protecting rural family business from inheritance tax



It is around a year and a half since Rachel Reeves announced that the government wanted to tax family farms and other trading businesses on death. Much has happened in that time and our clients have been changing their businesses and family ownership structure in order to protect the capital in the business.

This article takes stock of the government's concessions of 26 November and 23 December last year and suggests what those with higher value farms and businesses should be considering for the future. It especially highlights the issues for those with business assets, including farmland, in pension schemes and the forthcoming change from April 2027.

What were the government's concessions?

Concession number one was announced on 26 November last year. This is that the 100% allowance for business and agricultural relief that is being introduced from April is to be transferable between spouses and civil partners.

Concession number two was announced on 23 December. This is that the 100% allowance is to be £2.5m per person and for many trusts.

The impact of these concessions in the Chancellor's flagship policy can be considered in a number of ways.

Will things change with a different government?

The concessions reduce the tax revenue being raised from about £500m a year to maybe £300m. This begs the question whether it is worth all the family grief and business disincentives, given the UK government's income last year was 380,000 times the amount this policy will now raise.

We now know that a complete climbdown is not going to happen under this government. Whether it will under a future government remains to be seen but is a possibility that must be considered when planning how to structure your business for the future.

As accountants, we urge prudence in planning and so would counsel against getting too optimistic on what a different political party might promise in opposition.

However, an increase in the 100% allowance of £2.5m per person at some point in future is very likely, indeed as certain as anything can be from 2031, when indexation for inflation will apply.

Good news for widows and widowers

The biggest 'winners' from these concessions are those who are already widows or widowers. Many of these are elderly individuals without much time to make changes to mitigate tax. They benefit from both the increase in the amount of the allowance and the ability to 'inherit' an allowance by transfer from their already deceased spouse.

Before these concessions, those widowed individuals would have had a 100% allowance on death of £1m. Now, they should have a 100% allowance on death after April, when the new rules start, of £5m. That is an increase of £4m that would otherwise only have benefited from 50% relief. For those with assets of more than £5m then this is a tax saving on their death of £800,000. That is a lot of money that won't now need to be found and is something to be grateful for.

Are trusts the answer?

The increase in the 100% allowance favours the use of trusts. Trusts holding farmland or business assets before 30 October 2024 are especially favoured, but trust planning for couples is being encouraged. A couple with good life expectancy could each settle farmland or business assets on trust and effectively double their 100% allowance to £5m each - £10m as a couple.

It's inevitably a bit more complicated than that sounds, and won't be for everyone, but a couple could shelter a family farm worth more than £10m from an inheritance tax liability and still keep control.

Protecting rural family business from inheritance tax

Higher value businesses

With these concessions, this policy is now very much aimed at much higher value businesses and rural landowners. With reasonable time and opportunity to plan, then it is possible to shelter from inheritance tax businesses worth up to maybe £20m or £30m through a combination of trust ownership, some small direct gifts to the next generation and valuation discounts. Going forward, there will also inevitably be a return to the pre-1992 approach to trying to undervalue assets.

The policy does discourage higher value businesses from remaining in family ownership and will encourage sales to listed companies or private equity – particularly where family members own a high-value asset but get a low annual dividend or rent. We are already seeing some evidence of that, such as Russell & Bromley selling to Next, although there are many other commercial and tax factors in play in any such decision.

This policy makes ownership of high-value, low-yield assets less attractive and farmland tends to come within that category. It is possible that this tax policy reduces the value of those assets over time. Again, we have seen some evidence of that but it is hard to unpack the impact of this policy from all other valuation factors.

What about pension scheme owners?

Currently, owning business assets within pension schemes is the most favoured possible tax structure. This is usually businesses premises for storage, production or administration, as well as farmland. For as long as I have been in practice, and before, it has been encouraged by governments. The pension schemes were historically small self-administered schemes (SSASs) but are now more commonly self-invested personal pensions (SIPPs).

In the pension scheme, the asset is outside of the beneficiary's estate for inheritance tax. Income or corporation tax relief is available on pension scheme contributions to help fund the property purchase initially. The pension scheme doesn't pay tax on rental income received from the business for use of the property, and the business gets tax relief on the rent paid to the pension scheme. It is win-win-win.

Until April 2027, when that is changing and the inheritance tax position will be disadvantaged compared to other ownership options. Not only will the SSAS or SIPP not get any 100% allowance in the way that a trust does, it won't even get the 50% relief that otherwise applies. It is a fairly bizarre change, and the impact does not appear to be well understood.

Businesses with assets in SIPPs and SSASs need to take advice ahead of the change in April 2027. There isn't one single solution and for some people the answer will be to do nothing. The interaction of commercial factors, pension and tax rules and family circumstances means that it is important to tread very carefully and consider the position from a number of different angles. If you are impacted, then you should seek advice.



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Guest article: Farmer Time

Connecting classrooms with real farming

Farmer Time is an initiative that connects farmers directly with school classrooms through regular online video calls. Launched in 2016, the programme allows pupils to learn about where their food comes from, farming life and the wider agricultural industry, directly from those working within it.

Each Farmer Time pairing links a farmer with a teacher and their class for regular calls. Together they decide how often to connect - some speak weekly, others once or twice a term - and how the calls can support what pupils are learning across the curriculum, using real-life examples from the farm. For many farmers, it is also an opportunity to share their knowledge and passion for the industry with the next generation.

During the calls, farmers share what is happening on their farm at that time of year, from planting and harvesting to animal care and new technologies. Pupils are encouraged to ask questions and often take part in their own classroom activities, such as growing seeds under different conditions or exploring topics like robotics and sustainability, before discussing their findings with the farmer.

Farmer Time currently works with schools from Key Stage 2 through to higher education settings, pairing with farmers and people working in agriculture representing a wide range across the sector. Many pairings become long-term partnerships, and some schools have every year group paired with a different farmer. This allows schools to build genuine connections with farmers while giving pupils a deeper understanding of modern agriculture and food production.

If you are a farmer, a teacher, school or college who would like to join, please visit:

www.farmertime.uk

or email rebecca@farmertime.uk to register your interest.



A new era for farm inheritance

Is now the time to act?

Since 1992 there has been unrestricted agricultural property relief (APR) on qualifying agricultural property and unrestricted business property relief (BPR) on qualifying relevant business property for inheritance tax (IHT) purposes.

However, from 5 April 2026 we have entered a new era where this is no longer the case and after much debate and conjecture and as outlined in John Endacott's article we now find ourselves in a situation where any individual on passing could have an 100% allowance for business and agricultural relief limited to £2.5m per person which is transferable between spouses and civil partners with any remaining qualifying property being granted 50% relief.

The expectation being that c 85% of those claiming APR will not now pay IHT, which is better than it could have been but still leaves some with issues that need addressing.

A question we frequently get is, does this mean that succession as a topic is now off the meeting agenda?

The answer to this has to be a resounding NO!

Whilst IHT has clearly been a driver for many of the conversations we have been having I think it is essential that whilst for many they can breathe easier this might still need some consideration to ensure that the full allowances are utilised.

Furthermore, succession must be seen as a topic far broader than just tax and it is essential that quality conversations regarding succession and the practicalities remain at the heart of our conversations.



Other common barriers to dealing with succession issues often include:

- Insufficient retirement provision (housing, pensions, living costs)
- Reluctance to give up income or control
- Family relationship or trust concerns
- Uncertainty over whether generations could work together
- Parents steering children away from farming due to industry pressures
- Structural and tax issues that felt easier to “sort out on death”

However, the biggest obstacle was often emotional as the older generation found it difficult to hand over control while still alive.

However, in most cases once the subject has been broached people invariably feel better with a plan in place and interestingly there is evidence to suggest a strong correlation to profitability and those businesses that have dealt with succession.

There is no one way to deal with succession as everyone's situation is unique to them but I have always found the following 10 step guide a useful starting point.

Why succession was often delayed in the past

Up to the October 2024 Budget many farmers might have reasonably questioned why they should transfer assets during their lifetime when those same assets would pass tax free on death, as they could retain full control in the meantime, however whilst this might still be the conclusion reached today I think the following question needs to be asked. Does it make sense from a practical perspective for the eldest generation hold onto the family silver until death? It doesn't seem to the case in many other businesses.

Succession is clearly a very emotive topic and perhaps discussing your own mortality is not top of anyone's bucket list and the fear of family fall out can be another reason for avoiding the conversation and retaining the status quo.

Succession planning

A practical 10 step guide

1. Do you need an independent facilitator?

- Can be invaluable
- Who should this be?
- Someone trusted and seen as suitably independent by all

2. Have an initial family conversation

- Neutral venue often helps
- Discuss whether there is interest in planning
- Identify broad goals and expectations
- Where is the business now?
- Try to develop open, transparent, inclusive communication
- Allow everyone to voice an opinion without fear of reprisal and judgement

3. Meet with your accountant (and the family)

- Explain what you want to achieve
- Ensure everyone understands the purpose and direction

4. Agree a sensible process and build your professional team

- Valuation agent
- Bank
- Accountant
- Solicitors
- Independent facilitator?

5. Time frame

- Once a decision is made, act forcefully and put a sensible time frame in place to ensure that things keep moving forward, it is easy to procrastinate and delay

6. Obtain valuations and review the options

- Talk through plans in more detail
- Consider practical issues
- Decide on the preferred approach

7. Check bank approval

- Ensure the bank is comfortable with increased capital held by the next generation
- Confirm borrowing or security arrangements

8. Ask your accountant to prepare a tax consequences paper

- Understand the IHT, APR/BPR, CGT, SDLT and VAT implications
- Tax is an important consideration but should not be the only consideration

9. Work with the relevant lawyers to implement the plan

- Property lawyers: land transfers, titles, agreements
- Corporate lawyers: partnership agreements, company structure changes
- Family lawyers: pre nuptial and post nuptial agreements
- Private client lawyers: wills and estate planning

10. Transfer responsibility to the next generation

- Ensure they take on leadership and decision making
- Avoid complications by aligning ownership with responsibility

The £5m per couple 100% relief lifetime limit has made many in the farming community relax, but the stress created over the last 18 months will live in the memory.

Having been untouched for over 30 years the assumption that APR or BPR will save the day from an IHT perspective cannot, and will not, ever be taken for granted again and there remains the uncertainty of what will happen at the next Budget.

Timely succession planning has to be the best pathway to take, ensuring that the right things are being done for the right reasons, one of which could well be a tax saving.

We are here to help guide you through whatever approach you wish to take.



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Life cover and inheritance tax

A practical guide for families and landowners



Life cover can play a valuable role in inheritance tax (IHT) planning by helping families manage potential tax liabilities without needing to sell assets or disrupt long-term financial plans, meaning many families face substantial tax bills, particularly where estates include property, investments, or business assets. Life cover is often used as a practical and relatively straightforward way to ensure funds are available to meet this liability when it arises.

How life cover helps protect the estate

The primary purpose of using life cover for IHT planning is to provide a lump sum on death that can be used to pay some or all of the IHT due. Without this, beneficiaries may be forced to sell property, shares, or other valuable assets quickly, often at the wrong time or at a reduced value. This is especially important for estates that are asset rich but cash poor, such as those heavily invested in property or family businesses.

By arranging a life insurance policy specifically for IHT purposes, individuals can help preserve their estate and ensure that intended beneficiaries receive the full value of their inheritance.

The importance of writing policies in trust

A key consideration when arranging life cover for IHT planning is ownership structure. Policies are commonly written in trust so that the proceeds fall outside of the insured person's estate.

If the policy is not written in trust, the payout could itself become subject to IHT, undermining the purpose of the arrangement. Writing a policy in trust generally allows the proceeds to be paid directly to trustees, who can then make funds available to beneficiaries or executors quickly. This can also help avoid delays associated with probate, ensuring that tax liabilities can be settled promptly.

Types of life cover for IHT planning

There are several types of life cover that can be used for IHT planning, with whole-of-life policies often being the most suitable. Unlike term insurance, which only pays out if death occurs within a specified period, whole-of-life cover is designed to pay out whenever death occurs, provided premiums are maintained. This makes it more aligned with IHT planning, as IHT will eventually arise on death.

Premiums for whole-of-life policies can be guaranteed, where the premium is set at outset and does not change, or reviewable, where the cost of the cover will be reviewed at regular points. The choice will depend on affordability, age, health, and long-term planning objectives.

Life cover can also be used alongside other IHT mitigation strategies such as gifting, use of trusts, business, or agricultural relief. For example, when making a non-exempt gift, if the individual dies within seven years there may be IHT to pay, a specialised decreasing term policy can cover the tax liability during the seven-year period before the gift falls outside the estate. This provides protection in case death occurs before the gifting strategy has fully achieved its intended tax benefit.

Affordability and regular review

Affordability and suitability must be carefully assessed. Premiums for life cover, particularly in later life or where health conditions exist, can be significant.

It is important to ensure that:

- Premiums are sustainable
- The level of cover remains appropriate as estate values and tax rules change

Regular reviews are therefore essential.

In summary

Life cover can be an effective tool in IHT planning, providing liquidity, protecting assets, and offering peace of mind that tax liabilities can be met without compromising the legacy intended for beneficiaries. When structured correctly and reviewed regularly, it can form an integral part of a comprehensive estate planning strategy.

If you're considering how life cover could support your IHT planning, our financial planning experts at Francis Clark are here to help.

We have strong experience supporting farmers, landowners, and rural families, where estates are often tied up in land and long held assets. We would be happy to talk through your options and help you put the right plans in place.



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MTD for income tax: essential guidance for 2026

What's changed?

From 6 April 2026, individuals with combined gross income over £50,000 per year from sole trader businesses (turnover + operating income), and/or UK or overseas property income, must be enrolled for Making Tax Digital for Income Tax Self Assessment (MTD ITSA) before the 2026/27 tax year begins.

The thresholds reduce to:

- £30,000 for 2027/28
- £20,000 for 2028/29

This means from April 2026, you will need to:

- Keep transactional records digitally
- Submit these records quarterly to HMRC using MTD-compliant software
- Submit an End of Period Statement (EOPS) for each income source
- File your annual self-assessment return as normal

For many, this is a substantial change in adapting to new ways of working and new digital software. There is no change to tax payment deadlines, and VAT returns remain separate.

Temporary exemptions (until 2027/28)

Some taxpayers in the agricultural and landed estates sector receive a one year exemption until April 2027.

You are automatically exempt until April 2027 if your 2024/25 tax showed that you either:

- Claimed averaging relief (farmers and creative artists)
- Claimed qualifying care relief (foster carer, adult placement carers, kinship carers or staying put carers)
- Received income from trusts or estates
- Included the non-residence supplementary page (SA109) in your return

You will need to apply for exemption if these do not appear on your 2024/25 return but are expected to apply in 2026/27.

Who MTD does not apply to:

- Trusts (including charitable trusts)
- Estates (executors / personal representatives)
- Limited companies
- Partnerships and LLPs
- Non-registered pensions
- Individuals without a National insurance number
- Ministers of religion (deferred)
- Recipients of married couples' allowance or blind person's allowance (deferred)
- Non-UK resident foreign entertainers / sportspeople (apply for exemption)
- Lloyd's members (deferred)
- Taxpayers with powers of attorney (application required)

You may be exempt where it is not practical to keep digital records due to:

- Disability
- Location
- Age
- Another valid reason

Or if you are a practising member of a religious society whose beliefs are incompatible with keeping digital records.

Share farming and contract farming

Share and contract farming arrangements are not partnerships, so if you are a sole trader your income under these arrangements will count towards your 2026/27 £50,000 income threshold.

Quarterly filing requirements

Under MTD, you'll need to submit quarterly updates using compatible software; here's how it works:

- Every three months, the software will compile digital records into summaries of income and expenses
- These summaries are cumulative, meaning you can correct errors or adjust in future updates
- Submit separate quarterly updates for each trade or property business you operate
- No tax or accounting adjustments, including stocks, are required in these quarterly updates
- VAT returns remain separate and unaffected by MTD for Income Tax, although you might consider aligning to reduce administrative burden
- Only Joint property income needs to be declared; expenses and other adjustments to be filed in the final self-assessment tax return submission as usual

MTD for income tax: essential guidance for 2026

Businesses can choose between the default period (same as PAYE quarters) or make a calendar quarter election; here is a breakdown:

Default quarter period	Calendar quarter election	Deadline
Q1 6 April to 5 July	1 April to 30 June	7 August
Q2 6 July to 5 October	1 July to 30 September	7 November
Q3 6 October to 5 January	1 October to 31 December	7 February
Q4 6 January to 5 April	1 January to 31 March	7 May

Penalties for non-compliance

A new points-based penalty system will be introduced from April 2026, like that used for VAT. A “soft landing” will apply to quarterly updates for the 2026/27 tax year, meaning no penalties will be issued for late submissions during this period. However, the annual declaration is not covered and usual penalties apply.

How to prepare for MTD

1. Determine if you are affected

Check whether your income and situation bring you into MTD from 2026, 2027, or 2028.

2. Check for potential exemptions

Apply if you are eligible and wish to be exempt. Existing MTD for VAT exemptions automatically carry across.

3. Separate business and personal bank accounts

This will be essential when providing digital records.

4. Understand tax basis period reform

From 2025/26, all ITSA returns must follow the tax year, and businesses not using a 31 March or 5 April year end may face accelerated tax charges. Contact your tax adviser if you think you could be affected.

5. Choose suitable MTD-compatible software

If you are using digital software already, check MTD compatibility, if not, speak to your adviser. Common options include Xero or Quickbooks (particularly good for landlords).

6. Speak to your accountant early

To ensure you are fully prepared, speak to your accountant about the support you will need under Making Tax Digital for Income Tax. Whether it's software setup, reviewing filings, or handling the entire quarterly submission process, they can guide you through every step.

Final thought

If you are in partnership and rental income flows through a partnership bank account, do not assume that this is partnership income. Legal ownership may differ, meaning it may count towards your personal income threshold for MTD. This may also be a good opportunity to review and discuss with your adviser whether restructuring could enhance inheritance tax reliefs.



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