



Tax Matters

March 2026 | edition 11

Welcome to the latest edition of the TLT Tax Team's "Tax Matters". In this edition, we have covered recent developments across the taxes including capital gains tax, the Construction Industry Scheme and employment taxes. If you would like to discuss any item in further detail, please speak to a key contact.

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Estoppel and legitimate expectation in tax disputes: MWL International Ltd and Anor v Revenue and Customs Commissioners

Legal issue

The Upper Tribunal considered estoppel and legitimate expectation arguments relating to a disputed liability to Class 1A national insurance contributions (**NICs**).

Case detail

MWL International Ltd and Maywal Ltd (the **Appellants**) leased cars for use by their employees. Although the cars did not meet the statutory conditions to be pool cars, in 1993 HMRC agreed that the cars would be treated as pool cars if certain other conditions were satisfied (the **Agreement**). This meant that no NICs liability arose.

In 2021, HMRC decided that the Appellants were liable to NICs in relation to the cars. The Appellants appealed on the grounds that: (i) HMRC were estopped from arguing that the cars were not pooled cars; and (ii) the Appellants had a legitimate expectation that

the cars would be treated as pooled cars. The First Tier Tribunal dismissed the appeals.

Case outcome

On appeal to the Upper Tribunal (**UT**), it was decided that HMRC could not be estopped by the Agreement from charging NICs in relation to the cars. HMRC could not have bound themselves by the Agreement to fail properly to apply the relevant legislation and could not be estopped from applying the plain terms of the legislation.

The UT concluded that it was not conspicuously unfair to allow HMRC to resile from the Agreement. Whilst there would have been some unfairness in not applying the terms of the Agreement with retrospective effect, on balance the unfairness would have been significantly outweighed by factors such as the public interest in the proper collection of taxes. The legitimate expectation claim failed.

Why it matters

Historic agreements with HMRC cannot override the clear terms of tax legislation, even where businesses have relied on them for many years. For employers, the decision highlights the risk of relying on such agreements and underlines the importance of regularly reassessing benefit and NIC positions against current statutory requirements.

- Read the judgement [here](#).

Scope of the disability exemption on termination of employment: *Rawlinson v The Commissioners for HMRC*

Legal issue

The issue was whether a payment in lieu of notice (**PILON**) made to a departing employee by their employer was taxable as general earnings or tax free under the disability exemption for termination payments in s406, Income Tax (Earnings and Pensions) Act 2003.

Case detail

The taxpayer's employment was mutually agreed to be terminated due to the taxpayer's disability. Under the terms of a settlement agreement, the taxpayer received a PILON and a termination payment. HMRC refused to refund the PAYE income tax deducted from the PILON.

Case outcome

The First Tier Tribunal (**FTT**) held that the PILON arose from the settlement agreement and not from any pre-existing contractual right, so it was not taxable as general earnings.

In considering the disability exemption the FTT applied the *Hasted v Horner* test which requires that “there must be established as an objective fact a relevant disability and as a subjective fact that the disability is the motive for payment by the person making it”.

The objective limb of the test was satisfied. However, in relation to the subjective limb, the FTT drew a distinction between the reason for the termination and the reason for the payment, finding that the PILON itself had to be on account of the disability.

The PILON was stated in the settlement agreement as being made in lieu of the taxpayer's contractual notice entitlement and was made to discharge the right to notice, which right would have existed regardless of the reason for the termination. Accordingly, the disability exemption did not apply and the PILON was not exempt from tax.

Why it matters

For the disability exemption to apply, the payment itself must be made because of the employee's disability. Employers must understand the legal basis and the stated purpose of termination payments to avoid unexpected PAYE liabilities.

- Read the judgment [here](#).

Deliberate behaviour: Akin Kog v The Commissioners for HMRC

Legal issue

The issue was whether deliberate behaviour by the taxpayer had caused World Sky Travel Ltd (**WSTL**), a company of which the taxpayer was a director, to fail to report to HMRC a VAT liability on a property sale.

Case detail

The property had been opted to tax meaning that WSTL was liable to account for VAT on the sale consideration. However, WSTL failed to submit a return recording the VAT liability. The taxpayer could not recall if the property had been opted to tax and so wrote to HMRC by email prior to the sale requesting confirmation. No response had been received from HMRC at the date of the sale.

HMRC issued a personal liability notice on the taxpayer on the basis that WSTL's inaccurate return was deliberate and attributable to the taxpayer.

The taxpayer appealed against the notice contending that: (i) he didn't know if there

was an option to tax over the property at the time of its sale; and (ii) he had sought to clarify HMRC's position.

Case outcome

The First Tier Tribunal decided that whilst the taxpayer did not have direct knowledge at the time of the sale that an option to tax was in place, the taxpayer had “blind eye knowledge” of the option to tax when the VAT return was submitted. The taxpayer had a suspicion that HMRC would confirm that the property was opted and took a deliberate decision not to follow up with HMRC seeking confirmation of that fact – this amounted to “blind eye knowledge”.

The appeal was dismissed.

Why it matters?

This case underlines the real risk of personal liability for directors where HMRC can show deliberate non-compliance, even without direct knowledge of the underlying tax position. Incomplete enquiries of HMRC are not enough. Businesses should actively confirm option to tax status and ensure VAT is correctly accounted for.

- Read the judgment [here](#).

Legislation and Guidance

Advance tax certainty for major projects service

The advance tax certainty service for major projects was announced at the Spring Statement last year and is part of the government's commitment to boosting long-term economic growth. Provided that certain conditions are satisfied, a taxpayer will be able to apply for clearance from HMRC to confirm how HMRC will apply tax legislation to a particular project. The clearance will last for up to 5 years or until the project ends (if earlier).

Ahead of the launch of the service in July 2026, HMRC has published draft guidance to help taxpayers understand how the advance tax certainty service works in practice. Some of the key questions covered by the guidance are set out below.

Who can apply for a clearance?

The person who is incurring the project expenditure or a person who controls it (or will control it, if the investment entity does not yet exist). Both UK and non-UK resident entities investing in the UK may apply.

What is the financial threshold for using the service?

£1 billion of qualifying project expenditure in the UK over the lifetime of the project. A "project" is defined as one standalone project or a group of approved, very similar projects that share the same tax uncertainty. The project must be a new initiative involving significant investment.

"Qualifying project expenditure" is all UK expenditure on the project except for the exclusions set out in the guidance (such as financing costs and amounts which are used for investment in equity).

Which taxes are covered by the clearance?

Where they are material to the investment project, HMRC will offer clearances on corporation tax, VAT, Stamp Duty Land Tax, income tax, PAYE regulations and the Construction Industry Scheme.

Will HMRC always provide a clearance?

No. There are certain circumstances specified in the guidance when HMRC will not provide a clearance, for example, if the

subject matter is outside HMRC functions but relevant to tax (such as the accounting treatment of a particular transaction), if the clearance relates to draft legislation which has not yet been passed by Parliament or if the clearance relates to anti-avoidance provisions or the application of main purpose or motive tests.

What is the process for applying for clearance?

The guidance provides detailed commentary on the application process, and the information which should be contained within a clearance application. In summary, the process is as follows:

- Before submitting a formal clearance request, the taxpayer can request an early engagement discussion with HMRC to set out their proposal.
- A clearance request can then be submitted in writing to HMRC.



- Within 21 working days of submission, if the taxpayer is successful, HMRC will discuss and agree the deliverable scope and timeline as part of a scoping and planning meeting.
- HMRC specialists will consider the relevant facts and technical analysis, seeking clarification or further information from the taxpayer if needed.
- HMRC will issue the taxpayer with a clearance (the aim is for the clearance to be issued within 31 working days of the planning and scoping meeting) if the taxpayer is successful.

Who is bound by a clearance?

The clearance is unilaterally binding on HMRC only. This means HMRC will be bound against changing its interpretation, but not against a court decision or changes in statute or generally accepted accounting practice that change how HMRC must view the relevant tax treatment.

A taxpayer cannot rely on a clearance if there has been a material change in the facts upon which the clearance was based.

Why it matters?

The advanced tax certainty service offers the prospect of meaningful upfront tax certainty for very large UK investment projects at a time when tax risk and complexity can be a barrier to committing capital. For qualifying projects, the ability to obtain a clearance that confirms how HMRC will apply a range of key taxes for up to five years can significantly reduce uncertainty around the tax treatment of major expenditure, improve the reliability of financial modelling and support investment decisions.

The draft guidance gives clients considering substantial UK investments an early opportunity to assess whether the service

could de-risk their projects and whether their tax uncertainties are suitable for resolution through this new regime.

- Read the draft guidance [here](#).



Latest HMRC guidelines for compliance published

HMRC's guidelines for compliance set out HMRC's views on complex, widely misunderstood or novel risks that can occur across tax regimes.

The latest guidelines (GfC17), issued in February 2026, set out best practice for sharing group structure information with HMRC to avoid misunderstandings and save time and resource.

The guidelines will be particularly relevant to large and complex business groups when preparing or reviewing group structure

information for HMRC, for example, to support statutory clearance applications or to comply with an HMRC information request as part of a compliance check.

The guidelines recommend that the following group structure information is provided to HMRC as a minimum:

- entity type (including incorporated bodies, unincorporated bodies, joint ventures, cells in protected cell companies and individuals);
- name;
- ownership and/or control;
- country of tax jurisdiction; and
- special characteristics.

In addition, information about hybrid entities is required, to enable HMRC to understand complexities in the tax treatment of the entity and its transactions.

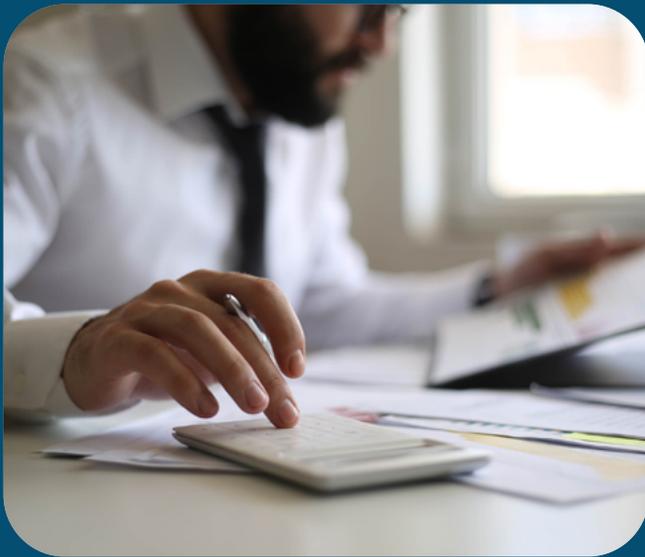
For larger businesses, the guidelines suggest that using the entity-level information prepared to satisfy Country-by-Country reporting requirements can minimise the effort required by businesses to provide group structure information.

The use of standard shapes and symbols to represent key information in group structure charts is also recommended and examples of common shapes and symbols used to show entity types are set out in the guidelines.

Why it matters?

The guidelines are intended to reduce friction in interactions with HMRC. For large and complex groups in particular, following the guidance should help avoid delays, repeated information requests and misinterpretation of structures, while the suggestion to leverage existing Country-by-Country reporting data offers a practical way to minimise duplication of effort and compliance costs.

- Read the GfC17 guidelines [here](#).



Double tax relief for deferred remuneration under tax treaties - new HMRC guidance

The OECD Model Tax Convention (**Article 15**) provides that when a person receives income from employment, it will be taxable only in the state in which they are resident unless they have carried out duties of their employment in another state. Where a person has carried out their duties in another state, employment income may also be taxable in that other state.

Most of the UK's double tax treaties contain an employment income article which mirrors Article 15.

HMRC has released new guidance in its International Manual to address how employment income should be taxed where a person has changed their state of residence before they receive the remuneration for employment income earned in an earlier period (deferred remuneration) and there is a double tax treaty (incorporating Article 15) between the UK and the country in which the employee has become resident. This deferred remuneration would include income in the form of a bonus or share option.

Under a typical tax treaty, the UK will be able to tax the deferred remuneration if the UK is either the state of residence (under the treaty definition of residence) or the state of source.

The new guidance makes it clear that:

- the tax charge under UK legislation in relation to deferred remuneration arises only at the point when the earnings are received; and
- it is the individual's residence when the deferred remuneration is received that has to be considered when determining which country has taxing rights under the applicable tax treaty.

Why it matters?

This guidance provides welcome certainty for employers and internationally mobile employees in relation to bonuses, share options and other deferred rewards, helping clients assess which country has taxing rights under an applicable double tax treaty and to plan compliance and withholding obligations with more confidence.

- Read the guidance [here](#).



Key tax changes from April 2026

We provide a reminder below of the key business tax changes which take effect next month (subject, in relation to some measures, to the enactment of the Finance Bill 2026).

Capital allowances: From 1 April 2026 (for corporation tax) and from 6 April 2026 (for income tax) the writing down allowance main rate will be reduced from 18 per cent to 14 per cent.

Capital gains tax: From 6 April 2026:

- the capital gains tax rate that applies to business asset disposal relief will increase to 18% (from 14%);
- the capital tax gains tax rate that applies to investors' relief will increase to 18% (from 14%); and
- taxpayers will be required to actively claim incorporation relief for transfers of a business to a company.

Carried interest: From 6 April 2026, carried interest will no longer be taxable as capital

and will instead be treated as trading profits and subject to income tax and Class 4 National Insurance Contributions.

Construction Industry Scheme (CIS): From 6 April 2026, HMRC will have the power to cancel the CIS gross payment status of a taxpayer where a business knew or should have known that a payment (**Contract Payment**) made or received under a construction contract was connected with the fraudulent evasion of tax. In addition, the business may be liable to make a payment to HMRC equal to 20% of the Contract Payment and for penalties of up to 30% of the amount payable to HMRC.

EIS and VCT: From April 2026:

- the investment limits will increase to £10m (£20m for Knowledge Intensive Companies);
- the lifetime company investment limits will increase to £24m (£40m for Knowledge Intensive Companies);

- the gross assets test will increase to £30m before the share issue and £35m after; and
- VCT income tax relief will decrease to 20%.

Enterprise Management Incentive (EMI)

options: From 6 April 2026, the following statutory EMI eligibility requirements will change:

- the employee limit will increase to 500 (from 250);
- the gross assets test will increase to £120m (from £30m); and
- the overall company EMI share option limit will increase to £6m (from £3m).

Also, from 6 April 2026 the maximum holding period for EMI options to benefit from the associated tax advantages will increase from 10 to 15 years (including in respect of existing EMI contracts).

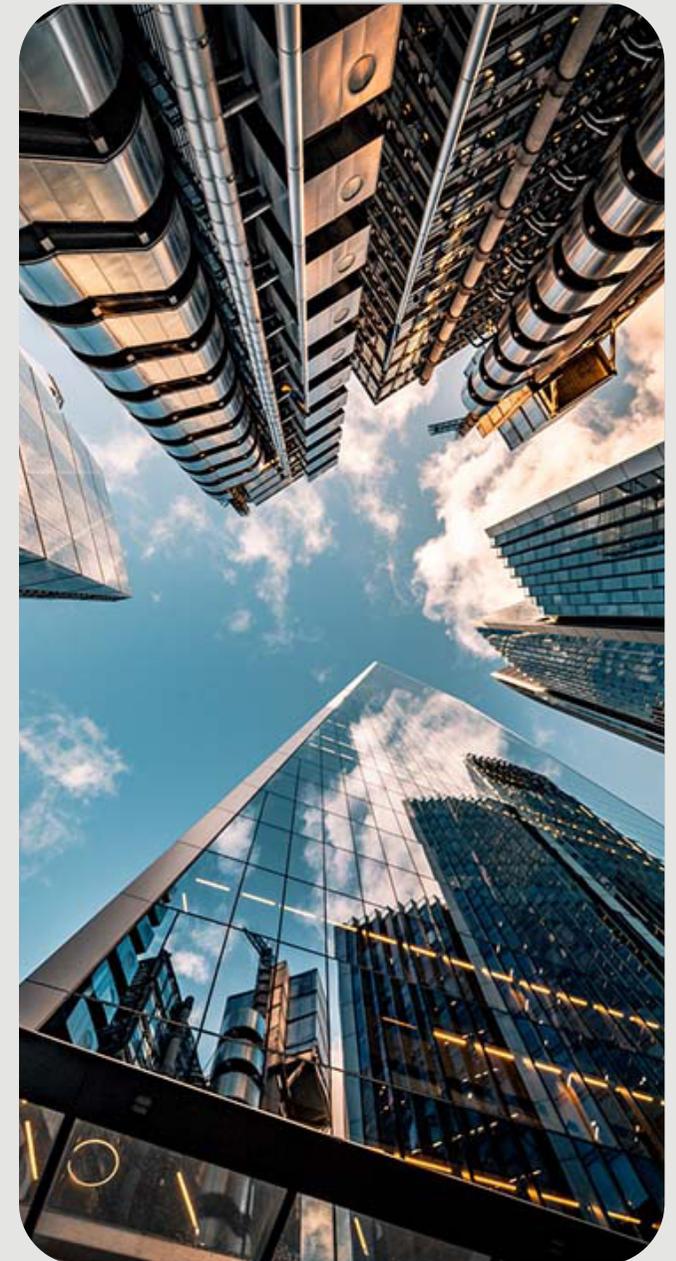
Umbrella companies: From 6 April 2026, joint and several liability for PAYE failures within labour supply chains will be introduced. This means that where an umbrella company fails to operate PAYE

correctly, HMRC may recover the unpaid tax not only from the umbrella company, but also from the recruitment agency that contracts with the end client or in some cases, the end client itself.

VAT: From 1 April 2026, a new relief from VAT will take effect for businesses that donate certain eligible goods to charity for onward distribution to people in need or for use in the delivery of the charity's services. Businesses will not be required to account for VAT on the items donated.

Why it matters?

April 2026 brings a significant package of business tax changes that will affect companies and their stakeholders. The changes will impact on investment decisions, transaction planning, remuneration structures and compliance risk. The measures increase the tax cost of certain disposals and incentives, reduce the generosity of some reliefs, and tighten enforcement powers in areas such as CIS and labour supply chains. At the same time, expanded limits for EIS, VCT and EMI options may create new opportunities for early-stage companies. Awareness of these changes is key to managing exposure and identifying planning opportunities.



Association of Tax Technicians - Top 10 asks for the tax system in 2026

The Association of Tax Technicians (ATT) has published its “top ten asks” for the tax system, setting out the top ten changes it would like to see made to tax policy and administration in 2026.

The “top ten asks” which impact on businesses, in particular, include the following.

- **Secure electronic communications with HMRC:** The ATT notes that taxpayers and agents increasingly expect and use digital services. A secure online channel would allow them to communicate anytime, anywhere, without relying on postal delays or long phone queues. This aligns with modern service expectations and systems that agents and their clients already use. As part of HMRC’s digital first transformation policy a full secure electronic communication system is needed.
- **The ability to track HMRC processing of post, forms and returns:** The ATT’s view is that taxpayers and their agents have become increasingly frustrated at their inability to know the status of any submitted correspondence, return or claim being processed by HMRC. A digital

tracking system similar to that operated by other government departments (such as HM Passport Office) would enable taxpayers and their agents to have comfort that their correspondence, return or claim has been received and monitor the progress in line with HMRC’s turnaround times.

- **Uplift outdated allowances:** The ATT reports that there are various outdated allowances in the tax system, which have not increased for several years and this results in the value of those allowances eroding over time. Examples include the approved mileage allowance payments exemption for business travel in an employee’s own vehicle, the tax exemption for annual staff parties and other social functions and some Inheritance Tax exemptions. The ATT would like to see the government review and increase the level of exemptions and reliefs on an ongoing basis, so that they can reflect movements in inflation.
- **Improving the agent experience:** The ATT identifies that currently, agents cannot see and do everything that their clients can. This creates unnecessary delays and increases the risk of error.

HMRC should make it possible for agents to see and do everything that their clients can do. The current agent services account does not allow more than one agent to be authorised for VAT for the same client at any one time. In addition, the online services account for agents allows only one agent to be authorised for PAYE and one agent to be authorised for corporation tax for the same client at any one time. This creates practical difficulties where multiple agents act for the same client. HMRC should enable the authorisation of multiple agents for VAT, PAYE and corporation tax, with appropriate safeguards in place.

Why it matters?

The ATT’s proposals highlight practical changes that could significantly reduce administrative burden and costs for businesses if adopted by the government and HMRC. The ATT believe that implementation of the proposed changes would significantly simplify the tax system, making it fairer and more effective for taxpayers, agents and HMRC.

- For further details, visit the ATT website [here](#).



Proposed construction industry scheme simplifications

The government is proposing amendments to the Construction Industry Scheme (CIS) with the aim of simplifying the administration of the scheme. In January 2026, the government launched a technical consultation (now closed) on two proposals, with a view to those proposals coming into effect in April 2026.

The first measure would allow certain public bodies to receive payments under construction contracts without deductions being withheld. This would be achieved by exempting payments to those public bodies from the scope of the CIS. Currently, those public bodies can receive construction contract payments without deductions on the basis of an HMRC extra statutory concession that allows them to be treated as holding gross payment status under the CIS. The proposed measure would allow the concession to be removed.

The second measure will introduce a requirement for construction contractors who have made payments reportable under the CIS to file nil returns each month with HMRC unless they have informed HMRC that they will not be paying subcontractors in the

relevant month. A penalty will be applied if the contractor does not inform HMRC that no payments will be made for the relevant month and does not file a nil return.

Why it matters?

The implementation of these measures will directly affect contractors' compliance processes from April 2026. Removing the need to rely on an extra-statutory concession for payments to certain public bodies will put their treatment on a clearer statutory footing, reducing uncertainty for businesses making those payments.

The introduction of mandatory monthly nil returns increases the compliance burden for contractors and raises the risk of sanctions where reporting obligations are overlooked. Businesses operating within the CIS will need to review their internal processes to ensure they meet the revised reporting requirements and avoid unnecessary penalties.

- Read the consultation document [here](#).

Carbon Border Adjustment Mechanism - consultation published

Last month, HMRC published a technical consultation on the Carbon Border Adjustment Mechanism (**CBAM**), which is due to come into effect in the UK on 1 January 2027.

The CBAM will impose duties on certain imported goods (iron and steel, cement, aluminium, fertilisers, electricity and hydrogen) based on the greenhouse gas emissions associated with their production and will create reporting obligations for UK importers.

The consultation seeks comments on the draft secondary legislation which includes the legislative requirements associated with the administration of the CBAM.

These include:

- the administrative requirements relating to registration for CBAM;
- tax returns and required content;
- reimbursement arrangements;
- weights of CBAM goods; and
- record keeping.

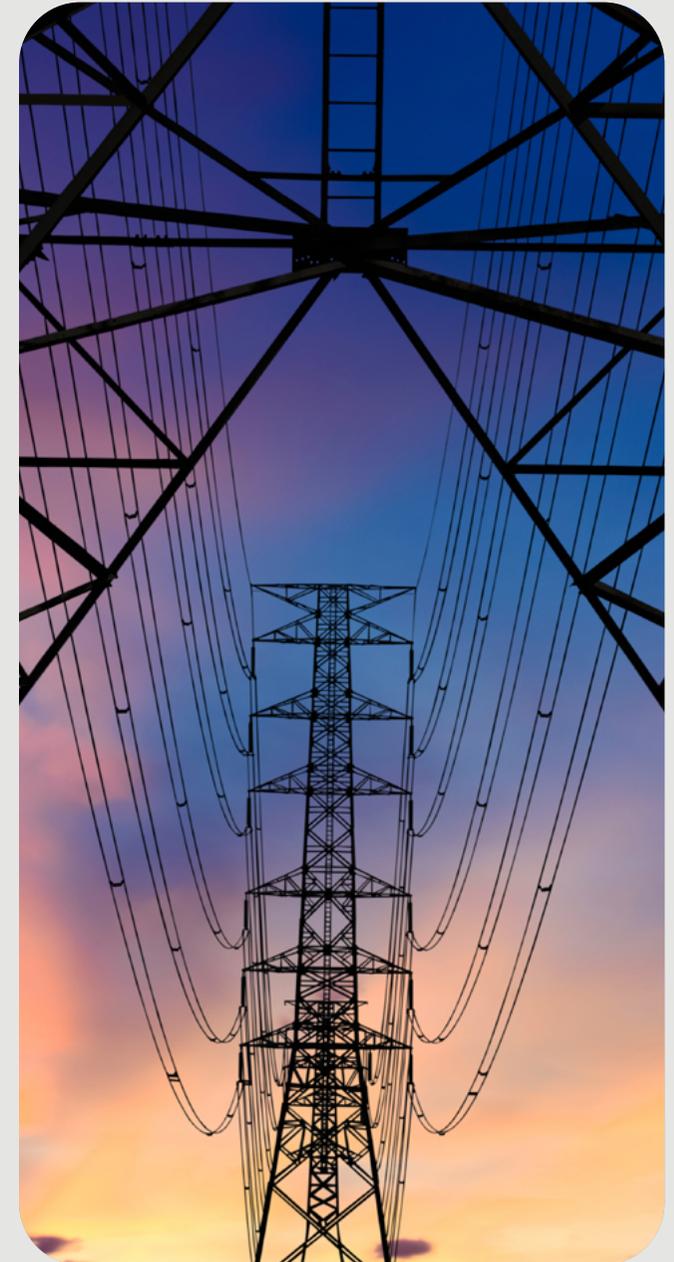
The consultation closes on 24 March 2026.

Why it matters?

The CBAM will introduce a new tax and compliance regime for UK businesses importing goods covered by the CBAM into the UK.

The outcome of this consultation will be of interest to businesses involved in the importation of these goods and to downstream producers that use these imported goods in their supply chains. The detailed administrative mechanics of the regime will directly shape how burdensome and costly compliance will be in practice.

Read more about Carbon Border Taxes in our TLT insight [here](#) and read the consultation document [here](#).



Consultation considers impact on share incentives of proposed changes to fire and rehire protections

The Employment Rights Act 2025 (**ERA 2025**) will introduce new protections to prevent unscrupulous fire and rehire practices (where an employer dismisses an employee and re-employs them under a new contract, usually with less favourable terms and conditions). Once in force, the ERA 2025 will make it an automatic unfair dismissal where an employee is dismissed or replaced in order to make changes to core terms in their employment contract – these are referred to as “restricted variations”.

The Department for Business and Trade (**DBT**) has published a consultation, “Make Work Pay: fire and rehire – changes to expenses, benefits, and shift patterns” which discusses the potential introduction of regulations which would allow an employer to dismiss an employee in order to make changes to their expenses or benefits in kind without triggering an automatic unfair dismissal.

In particular, the consultation discusses whether changes to benefits which take the form of share schemes should trigger an automatic unfair dismissal.

The consultation document recognises that in some cases, employees may rely on the value of awards provided under share schemes and that, if such awards take the form of a commitment to predictable future awards of new assets, they may have a character similar to pay.

The consultation notes that “if an employee’s contract contains a commitment to a share scheme in addition to their salary or regular pay, this may have induced them to take the role over alternatives, and they may structure their life around the expectation of this further income”. However, it is also acknowledged that reference to share scheme arrangements in a contract may often be brief with the details set out in separate documentation which may already provide the ability to make changes outside of the employment contract without using fire and rehire.

The consultation suggests two options for dealing with expenses and benefits – excluding all changes to expenses and benefits from the protection of “restricted variations” or specifying certain changes (such as share schemes and travel expenses) as “restricted variations” with all others not benefiting from that protection.

The consultation seeks views on what, if any, contractual benefits and payments in kind have the character of pay (so that changes to those benefits and payments in kind should be protected as “restricted variations”).

The consultation closes on 1 April 2026.

Why it matters?

The ERA 2025 significantly raises the legal risk for employers seeking to change remuneration-related arrangements, and the current consultation could determine whether certain benefits in kind—most notably share schemes—are treated in law as akin to pay. If changes to share schemes are classified as “restricted variations”, attempts to amend or withdraw them could expose employers to automatic unfair dismissal claims, constraining flexibility around incentive design, restructuring and cost management. The outcome of the consultation will be highly relevant for businesses reviewing their reward structures, particularly where share awards form a predictable and valued part of overall remuneration.

Read the consultation [here](#).

Looking ahead

Key tax developments to look out for over the next quarter

1 April 2026

Writing down allowance main rate to reduce to 14 per cent for corporation tax purposes

New VAT relief for business donations to charity takes effect

5 April 2026

Deadline to register for voluntarily payrolling of benefits in kind in the 2026 to 2027 tax year

6 April 2026

Writing down allowance main rate to reduce to 14 per cent for income tax purposes

CGT Business Asset Disposal Relief rate to increase to 18%

6 April 2026

Carried interest to be taxed as trading income

CIS anti-fraud measures to take effect

Changes to the EIS and VCT rules to take effect

6 April 2026

Changes to EMI statutory EMI eligibility requirements and tax-advantaged exercise period to take effect

6 April 2026

Joint and several liability for PAYE failures relating to umbrella companies to come into force

18 May 2026

HMRC mandatory tax adviser registration commences

18 May 2026

Upper Tribunal expected to hear the appeal in the case of HMRC v Candy relating to SDLT overpayment relief

Key contacts

Our specialist Tax and Incentives team operates out of our offices in Bristol, London, Manchester and Dublin.

We have years of experience providing clear, commercial advice to national and international corporate groups, joint ventures, management and HR teams, partnerships, and funders.

We offer a tax structuring and advisory service to clients as part of our national reach, as well as transactional support on business and real estate transactions dealing with all the main UK business, real estate and employment taxes.

Our experienced incentives lawyers advise on implementing and operating employee share plans and incentives as well as bonus, deferred bonus and salary sacrifice schemes.

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