
CMS
law·tax·future
UK Tax
Disputes Digest
Winter 2025

Contents

Introduction

Welcome to the winter 2025 edition of our UK Tax Disputes Digest: a high-level summary of key developments in contentious tax over the last few months for tax and legal in-house professionals.

As with previous editions, we have seen a continued increase in HMRC activity across various areas. Both individual and corporate taxpayers would be well-advised to check their tax position as soon as possible to prepare for any potential HMRC investigation into their tax affairs.

In this edition, we look at just a few of these developments, including in relation to HMRC's recently commenced nudge campaign on management expenses and hot topics in global tax disputes.

We also cover a number of notable tax cases and other interesting procedural decisions. This includes the most recent case law development on the "wholly and exclusively" rule.

About the team

The CMS Tax Disputes and Investigations team provides a full-service contentious tax offering. This includes advising both corporate and private clients on all areas of direct and indirect tax covering tax dispute prevention, management and resolution. We seek to protect against tax risk, manage interaction with HMRC and conduct litigation at all stages of the courts and tribunals system including the Supreme Court.

With 17 partners, the CMS tax team is one of the largest in the City and advises high-profile clients across a wide range of sectors and all areas of tax. The UK team works alongside the CMS global network, which has tax capability in over 70 offices, to assist clients with international issues.

For more information on our team and the type of work we undertake, please see here.

Key contacts

Nicola Hine
Partner, United Kingdom
T +44 20 7367 2543
E nicola.hine@cms-cmno.com

Stephen Hignett
Partner, United Kingdom
T +44 207 067 3397
E stephen.hignett@cms-cmno.com

Sam Dames
Partner, United Kingdom
T +44 20 7367 2470
E samantha.dames@cms-cmno.com

Elizabeth Sherwood
Of Counsel, United Kingdom
T +44 20 7367 2385
E elizabeth.sherwood@cms-cmno.com

With thanks to Hannah Jones, Harry Penfold, Antonio Burcus, Charles Cameron, Rachel Hii, Tamsin Blow, Lisa Fox and Charlotte Sanderson and our international colleagues: Beatrice Fimiani (Italy); Jonathan Johansson (Sweden); Leo Lopes de Oliveira Neto and Andre Azeredo (Brazil); for their contributions

In focus: Management Expenses – A Key Area of Contention

A recently commenced nudge campaign indicates an increased focus by HMRC on deductibility of management expenses of investment companies. HMRC now seem to be taking a narrower approach as to what may be deductible, so that corporate groups may be exposed to a real risk of HMRC seeking to argue that some management expenses should be disallowed. This is likely to be a key area of contention going forward, to which many groups may have an exposure. Taxpayers should therefore take steps now to review and document their positions, from a dispute risk management perspective.

Section 1219 of the Corporation Tax Act 2009 ("**CTA 2009**") provides that expenses of management of a company's investment business are allowed as a deduction from total profits. Expenses of management are expenses of management of a company's investment business, broadly where the investments are not held for an unallowable purpose. No deduction is permitted for expenses of a capital nature, nor for expenses so far as they are otherwise deductible from total profits, or in calculating any component of total profits.

HMRC's nudge letter comments as follows:

"We expect that, in group arrangements, there is likely to be an intermingling of benefits from the costs incurred. Therefore a clear distinction is needed between the expenses of managing the holding company's investment and the businesses, or trades, of its subsidiaries.

…

"Where the costs are incurred for the benefit of the business or trade of its subsidiary, or any other connected party, those costs cannot be deducted under section 1219 CTA 2009 unless they are recharged to the relevant subsidiary. In practice, such costs may also be allowed where they would have been set against UK taxable income in the subsidiary."

HMRC's view gives rise to an important issue in relation to expenses which are incurred in part for the benefit of the business or trade of a subsidiary, or where it is arguable that some benefit to the subsidiary arises, but where the expense is nevertheless an expense of management of the holding company's investment business, which is not recharged to the relevant subsidiary.

The first point to note is that there is no "wholly and exclusively" test within section 1219 CTA 2009, so that it may be argued that a duality of purpose in this context ought not to be a barrier to deductibility. The absence of a "wholly and exclusively" test in this context is accepted in HMRC's manuals at CTM08180.

As indicated above, HMRC's view now appears to be that costs which benefit a subsidiary ought to be recharged to that subsidiary, otherwise they are not deductible for the investment company. It is perhaps worth noting that this apparent hardening of HMRC's position does not result from a change in law in this area.

In practice, management expenses may not have been recharged to a subsidiary. This will be the case where a recharge was not required, on the basis that no charge would be made on an arm's length basis. HMRC's manuals (at INTM440060) acknowledge this possibility and provide various examples.

Holding companies which have incurred expenses which arguably benefit subsidiaries, but which have not been recharged to those subsidiaries, may well now find that the deductibility of those expenses is an area of contention with HMRC. We anticipate that litigation in this area may follow.

Taxpayers should consider how to manage their risk in relation to this key area of HMRC focus, for example by careful documentation of their decisions in relation to deductibility, in order to limit their exposure to HMRC challenge. Additionally, ensuring that appropriate document retention processes are in place where evidence may need to be provided to HMRC at a later date and that any communications accurately reflect the position is important. Management of enquiries and disclosure is a key aspect to engaging with HMRC, the HMRC relationship and risk management.

CMS have significant experience of engagement with HMRC, managing tax risk and seeking to resolve tax disputes, please contact us for any assistance with managing your tax risk.

In focus: Unallowable Purpose Disputes – a Focus on Evidence

In focus: Global Tax Disputes Hot Topics

The global tax disputes landscape is experiencing a period of intensified enforcement, expanding data-driven audits, and challenges over procedure and taxpayer rights. This environment is driven by a combination of cash-strapped governments seeking revenue, artificial intelligence ("**AI**") enhancing the capabilities of tax authorities, and geographically mobile individuals and businesses.

Authorities are deploying additional resources and advanced technology to close perceived tax compliance gaps, with targeted initiatives aimed at specific sectors, cross border transactions, and perceived abusive practices. Three recurring themes emerge across jurisdictions. First, on enforcement, jurisdictions are seeing higher audit volumes and increased use of penalty regimes, often accompanied by parallel criminal exposure in cases considered egregious. Second, a procedural focus, as authorities expand powers to obtain information from taxpayers and third parties, "cooperative compliance", including where taxpayers receive "nudge" letters to encourage action and focused interventions on areas where there is perceived non-compliance. Third, planning is essential; taxpayers are advised to maintain detailed documentation, engage early with strategy and procedure, and consider how to mitigate penalties.

Although these trends appear across multiple jurisdictions, there remain differences between tax authorities in how they interact with and respond to taxpayers. In the sections that follow, we examine four jurisdictions, each illustrating hot topics and areas of focus for the relevant tax authority.

United Kingdom

HMRC has entered a period of heightened enforcement supported by government funding earmarked for tax compliance. This is expected to result in additional investigations and compliance activity by HMRC and more sophisticated oversight and data interrogation powered by technology and AI. These developments are driving increased scrutiny of fraud and avoidance-related matters. The "nudge" letter has become a mainstream compliance tool: a communication prompting taxpayers to self review targeted areas such as anti avoidance for loan relationships, crypto asset reporting, and online sales disclosures. Although the nudge letter is not a formal allegation, failure to respond may prompt escalation. Taxpayers in such scenarios should undertake an early assessment of their factual and legal position to determine their course of action. This may include responding substantively, making a disclosure, or defending their position, recognising that timing and procedural approach may drive penalty mitigation and influence any future litigation.

Against this backdrop, procedural and evidential discipline are crucial. Retaining accurate records for relevant periods and engaging promptly with information requests from a litigation standard approach can be key. Where tax errors are identified in later periods, consideration of appropriate disclosures can mitigate penalties.

In an environment defined by a significant increase in data, tax complexity and the need to increase tax take, early decisions on strategy, litigation approach and disclosure can determine the course of the dispute and protect a taxpayer's position.

Italy

Italy's tax disputes landscape is currently shaped by an expanded ecosystem of tax credits and incentives and the steady sophistication of audit practices assessing entitlement to those benefits. Authorities have intensified verification of credits, increasingly testing both legal and technical eligibility criteria as well as the evidentiary underpinnings of the tax benefits.

For multinational groups, scrutiny also extends to transfer pricing as well as the other typical intercompany transactions (i.e. dividend distributions and interest payments).

The adoption of cooperative compliance and risk-prevention systems, such as the Tax Control Framework, is being promoted for the benefit of a broader range of taxpayers to mitigate dispute. This regime has shifted, due to recent regulatory reforms, from an open, company-driven model to a certified and standardized system.

Procedurally, Italy offers multiple off ramps before litigation. Taxpayers frequently undertake voluntary corrections, negotiate settlements, and reach judicial conciliation to reduce further costs (as interest and penalties). Indeed, the taxpayer often achieves the best outcome by pursuing a disciplined administrative procedures that facilitate the use of different settlement mechanisms to contain risk. If such mechanisms are not applied, the Italian dispute system is highly structured, with specialist tax courts and a three-tier appeals structure but the proceedings can be lengthy, increasing costs and risk.

In short, the system is designed to encourage administrative resolution and prevent dispute; if that fails, a multi tiered judicial process is aimed to assert rights, taxpayers should therefore build early and complete defence strategy for both settlement and dispute proceedings from day one.

Sweden

Sweden exemplifies a lean, rules driven model with wide investigative powers and limited room for negotiated outcomes. The Swedish Tax Agency ("**STA**") can reconsider tax decisions up to the sixth year following the financial year. However, after the second year, the STA typically needs to show that the taxpayer provided information of importance that was also incorrect, in order to issue an adverse decision. Investigations commonly involve re-examinations of filed returns or focused sector interventions, where venture capital activity has been a recent focus area, underscoring a data rich approach rather than randomised auditing. The STA has broad powers to investigate. A taxpayer must provide the STA – upon request – with all information, books and documents that may be relevant. The STA also has the option of ordering third parties, e.g. banks, suppliers and customers who have been in contact with the taxpayer, to submit documents and other information to the STA. While settlements over tax assessments are not available, taxpayers benefit from meaningful procedural protections, including the right to access information filed by others, to comment on intended decisions, and to representation.

The penalty system is formulaic: surcharges of 40% for income tax and 20% for most other taxes, with potential criminal referral where incorrectly withheld tax is significant. Appeals proceed through the administrative courts in three instances, typically taking around one year per stage; payment deferral may be obtained where the STA's position appears doubtful, and deferral of surcharges is mandatory upon application when surcharges are imposed. The practical guidance is clear: engage expert counsel early, manage the flow of information carefully, and prepare for litigation rather than negotiated compromise. With alternative dispute resolution mechanisms absent and settlements off the table, factual development, privilege strategy, and meticulous rebuttal of the STA's audit findings carry outsized weight.

Brazil

Brazilian tax disputes have recently made international headlines following Netflix's disclosure that a dispute with the Brazilian tax authorities had materially affected its Q3 2025 results (taxation of cross-border royalty remittances). The case highlights the complexity and potential high stakes of the Brazilian tax environment.

Tax audits are commonly triggered by inconsistencies in filings, abrupt changes in tax practices, or the use of structures perceived as aggressive – such as questionable tax credit deductions or the use of controversial tax incentives. Authorities have broad investigative powers, including access to third-party records, lifting bank secrecy under certain conditions, and conducting raids against taxpayers suspected of fraud or serious non-compliance subject to judicial authorisation.

The Brazilian system offers both administrative and judicial routes for dispute resolution. Taxpayers may challenge assessments through a structured administrative process, followed by judicial review through three levels of courts. Standard penalties range from 20–100% of the tax due (up to 225% in fraud cases), and interest accrues at Brazil's SELIC rate (the benchmark interest rate set by the Central Bank). Interim relief is available through guarantees such as judicial deposits or surety bonds, or by obtaining an injunction to suspend collection.

Recent areas of focus include the taxation of cross-border payments and royalty remittances, the early revocation of sector-specific tax incentives, and ongoing legal debates over the scope of res judicata in tax matters. In this environment, early engagement with tax authorities, strong evidentiary records, and close monitoring of case law are essential to managing risk and securing favourable outcomes

CMS Expert Guide

The CMS Expert Guide to Tax Dispute Resolution provides insight into tax investigations and audits, taxpayer rights and obligations, penalties and appeals, dispute resolution and trends, and practical recommendations.

The CMS global network has tax capability in over 70 offices. Please get in touch if you would like to discuss tax disputes in practice and tax authorities' areas of focus.

https://cms.law/en/int/expert-guides/tax-dispute-resolution-trends-tips-and-practical-guidance

Notable tax cases

In R *(on the application of Hotelbeds UK Limited) v HMRC* [2025] EWHC 2312 (Admin), the Administrative Court considered both the principles and administrative requirements that govern a supplier's right to input tax, and how taxpayers should approach contradictory or ambiguous HMRC guidance.

Background

The taxpayer, Hotelbeds UK Limited ("**Hotelbeds**"), is a wholesale buyer and reseller of hotel rooms. Acting as principal, it paid VAT on the purchase of hotel rooms, and was entitled to recover VAT on the resale of those rooms to its customers.

Under regulation 29 of The Value Added Tax Regulations 1995 ("**Regulation 29**"), the right to deduct will be given effect automatically when a valid invoice is held. Regulation 29 also gives HMRC discretion to accept other evidence of the charge to VAT in effecting the right to deduct.

In relation to a significant quantum of input tax, Hotelbeds did not hold valid invoices. Despite this, it submitted two Error Correction Notices ("**ECNs**") claiming input tax in relation to a series of supplies. In relation to those two ECNs, HMRC applied their discretion under Regulation 29 and accepted alternative evidence for the right to deduct.

Subsequently, Hotelbeds submitted two further ECNs ("**ECN3**" and "**ECN4**"), claiming the right to deduct in relation to two later periods.

HMRC notified Hotelbeds that they would not accept ECN3 and ECN4, denying Hotelbeds the right to deduct input tax in relation to those later supplies. In HMRC's view, and pointing to wording used in their guidance, Hotelbeds had "*systematically failed to obtain valid VAT invoices*", which was fatal to its claim to deduct input tax. This was despite the taxpayer seeking invoices from 900 separate VAT-registered suppliers in respect of 300,000 individual supplies.

Hotelbeds applied for judicial review on several grounds:

— The refusal to allow the deductions was unlawful, because HMRC failed "*without good reason*" to apply their own guidance;
— Hotelbeds had a legitimate expectation that HMRC would accept the claims in ECN3 and ECN4, on the basis of statements in HMRC's guidance and HMRC's acceptance of the earlier ECNs;
— HMRC had made an irrational decision, given that they held sufficient other proof of the relevant supplies being made; and
— HMRC had breached the EU principle of effectiveness in relation to periods before 31 December 2020.

Decision

The Court allowed Hotelbeds' application for judicial review, finding HMRC's decision not to allow the right to deduct in relation to the supplies which were the subject of ECN3 and ECN4 to be unlawful. In addition, in relation to periods before 31 December 2020, there was a breach of the EU principle of effectiveness.

In relation to various pieces of HMRC's guidance, on which both the taxpayer and HMRC relied for their respective arguments, the Court came to the "*clear conclusion*" that none of those were drafted to address situations where there were no invoices, rather than invalid or defective invoices. In addition, the guidance – to the extent it could be of assistance in relation to the facts – was "*inconsistent*", "*ambiguous*" and "*difficult to navigate*". As such, there was no written policy which enabled HMRC to decline to consider other evidence demonstrating the right to deduct.

On that basis, the Court turned to the scope of the discretion in Regulation 29. This required balancing several factors including, on the one hand, the protection of the revenue, the minimisation of fraud and the efficient management of tax, and on the other, the neutrality of VAT, the central importance of the right to deduct, and a proportionate/reasonable approach to procedural requirements.

The Court set out that invoices are the essential documents by which HMRC correctly identify VAT amounts and reduces the risk of fraud. However, here, there was no risk of fraud. The taxpayer had communicated to HMRC the steps it had taken to secure invoices and HMRC were satisfied by other materials in relation to the two earlier ECNs. Crucially, when continued efforts to obtain invoices proved inadequate, Hotelbeds instead adopted (and informed HMRC that it had adopted) the Tour Operators' Margin Scheme ("**TOMS**"), such that there was no threat to the future system of input tax deduction.

In addition, since HMRC had been sufficiently satisfied with the evidence Hotelbeds had previously provided to deduct input tax in the first two ECNs, it was Hotelbeds' reasonable expectation that HMRC would treat ECN3 and ECN4 in the same way.

As such, the refusal to allow the deduction of input tax in relation to ECN3 and ECN4 was unfair and unreasonable, and unsustainable in public law terms.

Comment

The case provides helpful clarity in using alternative recourse, beyond the tax tribunal, to hold HMRC to account. In particular, taxpayers should consider carefully, bearing in mind short and strict limitation periods for judicial review, how they might protect or defend their positions.

The case not only highlights HMRC's fallibility when interpreting revenue policy; it also indicates that, where HMRC's guidance is unclear or contradictory, parties should consider the legal principles governing the relevant tax (in this case, input tax) and any course of dealing.

It is of note that the judgment was not predicated on legitimate expectation, perhaps due to the inconsistency in HMRC's guidance. The Court considered it preferable to consider the public law unreasonableness of HMRC's approach, discretion and policy application on the facts.

Taxpayers may wish to consider, based on their own facts, if this judgment assists with submitting ECNs where VAT invoices may not be available or are invalid. This judgment may also be relevant in instances where HMRC's failure to comply with their accepted practice is unlawful on public law grounds.

Other notable tax cases

In *Weis v HMRC* [2025] EWHC 2479 (Admin) the Administrative Court granted permission for the taxpayer to proceed with an application for judicial review despite a five year delay in bringing a claim following HMRC's issue of closure notices. The judgment expressly confirms that it can be cited as an authority for future cases in terms of its detailed consideration of an application to extend time.

Background

The claimant, Mr Weis, challenged HMRC's decision to issue closure notices in May 2019 for the tax years between 2005 and 2013. The basis for the closure notices was that the taxpayer was domiciled in the United Kingdom, not Israel, such that his non-UK source income would be subject to UK tax. Mr Weis contended that correspondence from HMRC in 2000 and subsequent conduct gave rise to a substantive legitimate expectation that he would be treated as non-UK domiciled, and that HMRC would not retrospectively alter this position without notice.

Following the closure notices, Mr Weis lodged appeals with HMRC against the notices on 4 June 2019 and requested statutory reviews of the closure notices on 4 July 2021. The statutory review concluded in November 2021 in favour of HMRC and upheld the closure notices. Appeals against the closure notices were notified to the FTT on 20 December 2021. The FTT appeal was determined on 21 March 2025. In addition, it is indicated in the judgment that an ADR process was entered into prior to the FTT appeal being heard.

Separately to the statutory proceedings, Mr Weis made a formal complaint to HMRC on 4 June 2021. This was rejected, escalated, rejected on tier 2 review and a complaint made to the Adjudicator's Office ("**AO**"). The AO declined to review the complaint in May 2024.

Mr Weis issued judicial review proceedings, focusing on HMRC's conduct and representations, in June 2024, more than 30 months after the statutory review of the closure notices concluded. The taxpayer submitted that HMRC's statements and conduct gave rise to a legitimate expectation that he would be treated as non-UK domiciled in the relevant period, and that he had relied on this expectation by filing his taxes accordingly.

Decision

The judge found that the taxpayer was outside of the ordinary time limit to bring the application, and therefore to obtain permission out of time, the taxpayer had to satisfy the court that:

1. The claim was at least arguable; and
2. There was good reason to extend time beyond the usual limit of "*promptly and within three months*" of the grounds arising.

The Court held that it was clearly arguable that HMRC's statements and conduct were "*clear, unambiguous and devoid of relevant qualification*," and that the taxpayer relied on them – meeting the threshold for legitimate expectation. Permission for judicial review was therefore granted.

In relation to the time limit, the Court determined that time for bringing a judicial review claim ran from the issue of the closure notices in 2019. The claimant's pursuit of internal review, his complaint to the Adjudicator's Office, and pursuit of alternative dispute resolution ("**ADR**") did not constitute suitable alternative remedies that would pause time running for the purposes of bringing a claim for judicial review in time.

Following issue of the closure notices, the Court accepted it was reasonable for Mr Weis to seek an HMRC review first, so the period to December 2021 did not count against the taxpayer. Pursuit of complaints and ADR showed he did not "*sit on his hands.*"

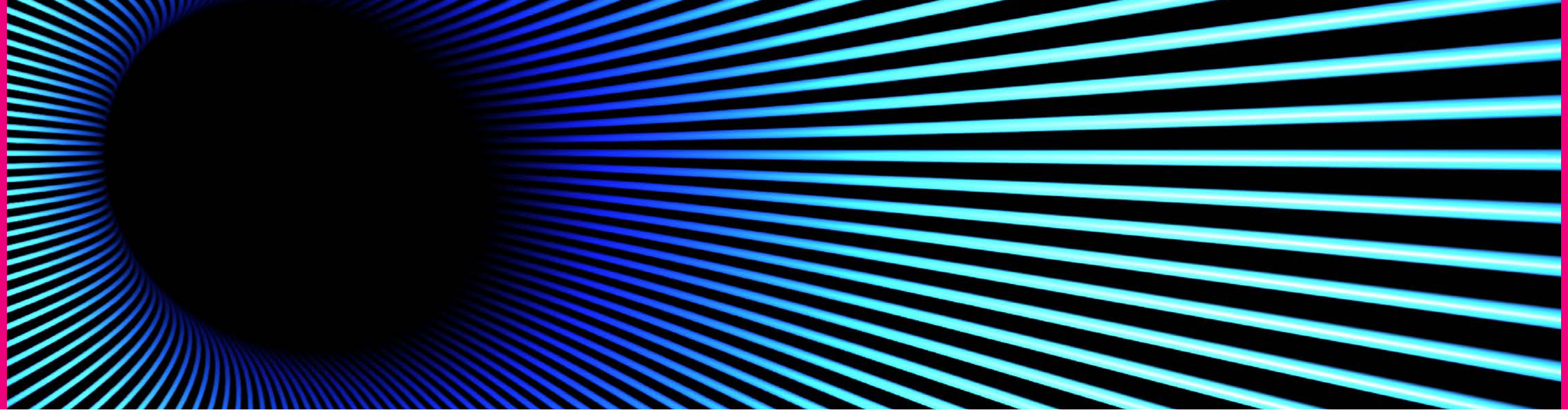
However, the 14 month gap after ADR ended was found to be unjustified. Despite this, the Court held that it had to consider whether there was a "*good reason for extending time*" (not whether "*there was a good reason for the delay*"). The judge concluded there were good reasons to extend the time limit because:

- The issues were important to the claimant (involving a tax liability of approximately £3.6 million), although not of wider public interest;
- The claim was arguable, with a realistic prospect of success, particularly as the legitimate expectation claim was based on both HMRC's letter in 2000 and subsequent HMRC conduct;
- There was no real prejudice to HMRC or detriment to good administration, as HMRC were aware of the legitimate expectation argument at all material times;
- The judicial review would likely have been stayed pending the outcome of the FTT appeal in any event.

Comment

The judgment expressly confirms that it can be cited as an authority for future cases in terms of its detailed consideration of an application to extend time. However, it is a surprising case in many respects, and should be considered on its facts (in particular, the appellant in this case was an individual rather than a large corporate with a tax compliance function). It is usual practice for taxpayers to allay themselves of different routes of recourse against HMRC where necessary, including where there is uncertainty around the appropriate forum. Where there may be public law grounds, bringing parallel statutory appeals, HMRC complaints and judicial review claims is common. It is important that taxpayers obtain prompt advice to ensure that they protect their position where necessary and that deadlines, including judicial review, should be met.

In any event, this judgment provides important clarification on the approach to extending time for judicial review in tax cases, particularly where the taxpayer has pursued alternative remedies and is relying on a legitimate expectation argument. The Court emphasised that delay is not determinative rather, the broader context, including the merits of the claim and the absence of prejudice, must be considered.



In *AD Bly Groundworks and Civil Engineering Limited & Anor v HMRC* [2025] EWCA Civ 1443 the Court of Appeal has, in a commendably clear judgment, provided important guidance on the "wholly and exclusively" rule.

Background

AD Bly is a provider of civil engineering and groundwork contracting services, with 7 directors and around 220 employees. It was owned, through a holding company, by all but one of its directors. It subsequently transferred its business to an LLP, of which it became a partner.

On the advice of accountants, pursuant to a scheme which had been notified to HMRC under the Disclosure of Tax Avoidance Schemes ("**DOTAS**") legislation, AD Bly entered into an Unfunded Unapproved Retirement Benefit Scheme ("**UURBS**"), under which unfunded promises were made to provide the directors and other key employees with future pensions. The pensions were calculated by reference to a proportion of the company's pre-tax profits, with the aggregate amount being 100% of those profits in one of the relevant accounting periods and 80% of those profits in the other.

The taxpayer made provision for the resulting liabilities and calculated their profits for corporation tax on the same basis.

HMRC's main argument was that the amounts in question were liabilities incurred for the purposes of a tax avoidance scheme, rather than expenses incurred wholly and exclusively for the purposes of the trade, such that deductions should be denied under section 54 CTA 2009. Alternatively, HMRC's view was that the deductions sought were in respect of "employee benefit contributions" and should be disallowed under section 1290 CTA 2009. The First-tier Tribunal ("**FTT**") decided that section 54 applied to disallow the deductions, which was upheld by the Upper Tribunal on appeal.

Decision

The Court of Appeal reviewed the caselaw on the "wholly and exclusively" test, before concluding that the FTT's conclusion on the facts were fatal to the case. The FTT had found that the UURBS was adopted as a tax saving scheme and that the provision of pensions was 'at best' an incidental aim.

The Court noted that UURBS can be used as a legitimate method of making pension provision and that, *"Amounts paid to remunerate employees will in the ordinary course be deductible… But the fundamental reason why expenses incurred to remunerate employees are deductible is that the object is indeed to remunerate them for their services. If that is the object, the mere fact that it is sought to be achieved in a way that avoids tax will not prevent a deduction being obtained."* However, the Court concluded that the real driver here was tax saving, as opposed to pension provision.

The Court noted that the arrangements were simple and lacked the outward appearance of artificiality. But the Court also noted factors such as a lack of genuine concern about the level of remuneration and pension provision (and a lack of specialist advice on those matters) and the use of a percentage of profits, irrespective of what those profits were. Crucially, the Court concluded that, "*this was not simply a choice of a tax-efficient method of making pension provision…*".

As regards HMRC's alternative argument, HMRC concluded that section 1290 CTA 2009 did not apply.

Comment

The outcome of this case is, on the facts, unsurprising. This case involves an aggressive scheme, which had been notified to HMRC under DOTAS. However, it is nevertheless an important, and commendably clear, judgment on the key question of when a tax-saving motive will cause the "wholly and exclusively" test to be failed.

Additionally, it illustrates the importance of fact-finding at FTT stage. The taxpayer sought permission to appeal factual findings on four grounds under *Edwards v Bairstow*, which was rejected.

Other developments

Other developments

Autumn Budget 2025

The Chancellor announced her Autumn Budget on 26 November 2025. This included widely anticipated tax increases, as well as a raft of significant technical changes.

Our UK tax team's on the day summary of the key Autumn Budget tax measures, as well as more in-depth analysis of the announcements relevant for specific sectors and taxpayers, can be accessed via the links set out below.

Autumn Budget 2025 – key tax announcements
Autumn Budget 2025 – key tax compliance, disputes and investigations measures
Autumn Budget 2025 – key tax implications for employers
Autumn Budget 2025 – key real estate tax measures
Autumn Budget 2025 – changes related to property taxation for private clients
Autumn Budget 2025 – gambling duties - "in-person" good, "remote" bad
Autumn Budget 2025 – stamp duty reserve tax (three-year holiday for new listings)

Latest HMRC nudge letter campaigns

The behavioural science of 'nudge theory' has become an increasingly used weapon in HMRC's arsenal over the last decade or so – i.e. the idea that people can be better directed towards a desired course of action through suggestion rather than obligation. UK taxpayers may have noticed the same concept at work when completing their online tax returns, where certain information is now pre-populated based on figures held by HMRC (the idea being that the taxpayer will likely accept those figures by default). Over the last few months, HMRC have launched several new nudge letter campaigns on various issues, as summarised below.

Holding companies claiming management expenses (November 2025)

As further detailed in our In Focus article, HMRC have launched an "educational awareness" campaign aimed at companies which act as holding companies for overseas subsidiaries and are claiming management expenses. In the letters sent to companies, HMRC state that they have identified common issues related to management expenses deductions, which often arise in relation to expenses with "*a distinct benefit to a connected party*". The letters set out HMRC's view of the key tests which determine deductibility of management expenses in these circumstances. In particular, HMRC's view is that where the expenses have a "distinct benefit to a connected party", either the expenses should not have been deducted, or a transaction should have been recognised, in accordance with the arm's length principle.

HMRC have also sent letters to agents, to make them aware of the campaign, attaching the letter sent to corporation tax payers. Recipients are encouraged by HMRC to review their relevant corporation tax returns and make any amendments in light of the guidance set out in the letter. The letter states that where out of time to make an amendment, recipients may still be able to make an unprompted disclosure should they determine that expenses in past periods should not have been treated as deductible.

Remittance basis charge (November 2025)

HMRC's Wealthy Team has written to taxpayers who did not include the remittance basis charge of £30,000 in their tax return for tax year 2023/2024. This is despite such recipients having been tax resident in the UK for at least seven out of the past nine tax years as of that tax year and having stated that they are not domiciled in the UK (so seemingly meeting the requirement to pay the remittance basis charge). Recipients are requested to check whether they had been tax resident for seven out of the past nine tax years as of the 2023/2024 tax year. If so, recipients are instructed to either (i) pay the remittance basis charge, (ii) declare and pay tax on the arising basis, or (iii) check whether they qualify for an exemption from the remittance basis charge, and to make any required amendments to their 2023/2024 self-assessment tax return.

Foreign tax credit relief (November 2025)

HMRC's Wealthy Team has written to individual taxpayers who claimed foreign tax credit relief ("**FTCR**") in their self-assessment tax return for tax year 2023/2024. The letter states its intention is to encourage recipients to check that the conditions for FTCR are met prior to claiming relief in their return for the 2024/2025 tax year. There are two versions of the letter; one for FTCR in relation to employment income and the other for non-employment income. The letter sets out the key criteria for claiming FTCR and provides broad guidance in relation to some common areas of difficulty. Recipients are also requested to amend their 2023/2024 returns if necessary, and warns that any later disclosure will be treated as prompted.

Individuals earning more than £200,000 per annum (November 2025)

HMRC's Wealthy Team has sent letters to individuals who have earned more than £200,000 per annum and who did not a submit a self-assessment tax return for 2022/2023 but either (i) have never been registered for self-assessment; (ii) may need to re-register a closed self-assessment account; or (iii) have received a Notice to File a return for 2022/2023 but did not submit a return. The letter sets out the circumstances where the submission of a self-assessment tax return is required and requests recipients to, if necessary, submit a return for 2022/2023. The letter warns that late filing and late payment penalties may be charged if the return is submitted after receipt of the letter, given that the deadline for doing so was 1 January 2024.

Other developments

Director and participator loans (November 2025)

HMRC have sent letters by email to tax agents who have submitted corporation tax returns (prior to April 2025) on behalf of their clients, which show future repayment dates for directors' and participator loans. The notices remind agents that if the loans have not been repaid, then the taxpayer may not be due relief under section 458 of the Corporation Tax Act 2010. Recipients are requested to email HMRC with details of clients who may be affected by the issue, assist their clients in checking their corporation tax returns and advise them, if necessary, to make changes to the returns. If an amendment is required, agents are advised to advise clients to make a payment on account in order to mitigate interest.

Any taxpayers who receive nudge letters, even those confident of their tax position, should seek professional advice as soon as possible. Whilst nudge letters do not make specific accusations and are rarely overtly threatening in tone, they are generally based on actual data held by HMRC. Taxpayers who ignore these letters do so at their peril – failure to take action or respond will likely mean that there is an imminent risk of HMRC starting an investigation (either under civil procedures or, in cases of suspected fraud, using their criminal powers). Early disclosure may also mitigate penalties.

CMS Law-Now™

Your free online legal information service.

A subscription service for legal articles
on a variety of topics delivered by email.
cms-lawnow.com

CMS Cameron McKenna Nabarro Olswang LLP
Cannon Place
78 Cannon Street
London EC4N 6AF

T +44 (0)20 7367 3000
F +44 (0)20 7367 2000

2601-0204391-3