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UK Tax Disputes Digest

Autumn 2026

Contents

Introduction

Welcome to the autumn 2026 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 legal advice privilege and HMRC performance.

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 90 offices, to assist clients with international issues.

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

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In focus: Recent publications offer further insights into HMRC's mixed performance

In the Summer 2025 UK Tax Disputes Digest, we discussed recent commentary and statistics on HMRC's performance. New publications have been released since then, providing further insight into HMRC's performance across compliance, transformation, and customer service.

HMRC performance on Large Business Tax Compliance

The Public Accounts Committee ("**PAC**") has published its Large Business Tax Compliance report which finds that HMRC's approach to large business compliance is working well, particularly with regard to co-operative compliance. The report notes that for every £1 spent on staff pay within the large business tax directorate, HMRC generate £95 in receipts. This has allowed the large business directorate to bring in £15.8 billion in tax revenue in 2024/2025.

The report notes positive relationships between large businesses and their customer compliance managers and observes that the large business tax gap is minor compared to the SME tax gap. Considering this, HMRC is now exploring expanding the co-operative compliance model to other businesses. Three pilots will be launched from September 2026 to assess the cost and value of applying the model more widely. Given the tax gap for SMEs is significant, it will be interesting to see whether the co-operative model encourages greater tax compliance from smaller businesses.

However, the PAC has criticised aspects of HMRC's approach, echoing concerns raised in earlier reports. The PAC was critical of HMRC's reluctance to use their 'special measures' regime, through which they can sanction poor behaviour by the worst-offending businesses, despite HMRC maintaining that the regime works as a deterrent. In the 10 years during which the regime has been in place, no large business has been put into special measures. HMRC are exploring whether they could change the regime to make it more effective. The report criticises the length of time it takes for investigations on large businesses to close with an average of 16 months to closure, or 97 months where there is litigation. Given public interest in large business taxation, the report notes the need for HMRC to reassure the public so that the tax system does not appear geared towards large businesses with vast resources.

The PAC expressed scepticism towards HMRC's claims around digital transformation and how they would use a recent £1.6 billion investment in IT. Whilst greater use of AI was noted in the report, the PAC states that they are *"not yet convinced the IT transformation programme will deliver real benefit for its [HMRC's] large business directorate"*. HMRC's archaic processes and fragile IT have been a continuing concern of the PAC, having discussed this at length in an earlier report which we referred to in the Summer 2025 Tax Disputes Digest.

The complexity of the tax system is also discussed, with HMRC hoping that automatic data collection eases the administrative burden on businesses. The complexity of the tax system is another recurring theme which the PAC and others have been concerned with, and as such the PAC recommended that HMRC set out how they will further support businesses with increasing complexity in the future.

HMRC Transformation Roadmap – One-Year Progress Update

In July 2026, HMRC published a one-year progress update on their five-year Transformation Roadmap. The roadmap outlines the Government's *"vision for a more efficient, modernised and automated tax and customs system"*.

The update confirms a continued commitment to compliance investment and closing the tax gap. Some 5,500 additional compliance officers are to be recruited by 2029/2030, of whom 2,100 have been employed so far. Greater use of AI is envisaged, alongside a strengthened reward scheme for informants and new powers to tackle dishonest tax advisers.

Compliance yield in 2024/2025 was at an all-time high of £48 billion, with £50.4 billion targeted in 2025/2026. This target was nearly achieved at £50.2 billion in actual compliance yield for 2025/26 as per HMRC's Annual Report and Accounts – see below. Further measures to close the tax gap are expected to deliver £10 billion in additional revenue per year by 2029/2030.

Looking forward, HMRC plans to close the tax gap by *"tackling some of the toughest areas of compliance risk"* through process and policy changes (including digitalisation, automation and AI); increasing and strengthening compliance and debt interventions; tackling fraud and economic crime; and raising the standards of advisers and intermediaries. New systems are planned, including a Digital Disclosure Service (to allow customers and intermediaries to correct mistakes and pay liabilities and penalties for all taxes and duties) which is expected to go live in 2027/2028. Caseworkers will soon be provided with AI-powered systems including access to generative AI systems. From 2026/2027, secondary legislation and guidance on third-party data requirements will be introduced to improve HMRC's data collection.

HMRC Annual Report and Accounts

HMRC published their Annual Report and Accounts in early July for the year to 31 March 2025. The headline figures for 2025/26 demonstrate the scale of HMRC's operations: collected revenues of £966.4 billion, compliance yield of £50.2 billion, and £10 billion in tax *"protected and recovered"* through the use of AI and advanced analytics.

An area of HMRC improvement was in increased digitalisation and improved day-to-day performance in customer service.

£818.8 million in self-assessment payments were made via the HMRC app, up from 64% the year prior. The success of the HMRC app in encouraging self-assessment payments may offer an insight into how further digitalisation could encourage tax compliance. Simplifying tax administration through digitalisation is likely to be a key area of HMRC focus, given the returns it is already seeing in this space.

Notwithstanding these successes, the need for further improvements in customer service is noted and will be an area that the PAC will be watching, given their prior concerns at HMRC's historic performance here.

HMRC Customer Surveys for 2025

HMRC released their 2025 customer surveys for multiple taxpayer groups and agents. These offer useful insight into taxpayer experiences of dealing with HMRC.

The Large Business survey reveals a decrease in those rating their overall experience as good (including very good): 78% compared with 82% the previous year. Negative experiences were linked to slow response times, delays and prolonged uncertainty. Positive experiences, by contrast, were characterised by collaborative, pragmatic engagement, a focus on material risks and confidence in HMRC's technical competence.

The surveys for agents and SMEs report significantly lower positive experience than large businesses. 70% of small businesses and 64% of mid-sized businesses reported a good experience, whilst only 35% of agents reported a good overall experience.

The Individuals survey records the lowest positive overall experience of interaction with HMRC, with only 55% rating their experience as good.

These numbers show that there is still much improvement needed in this area. Particularly, the satisfaction numbers for SMEs, agents and individuals remains lower than desired. Although there has been improvement in day-to-day customer service and a litany of HMRC activity to understand their poor customer satisfaction, it is to be seen whether these will have any effect.

What does it mean for you?

Taken together, these publications signal HMRC's continued and intensifying focus on compliance, modernisation and closing the tax gap. The recruitment of thousands of additional compliance officers, new powers to tackle tax avoidance, a strengthened informant reward scheme and forthcoming plans to close the tax gap all point clearly in this direction. Taxpayers would be well advised to check their current tax affairs and documentation to avoid being caught by this renewed HMRC push.

As for HMRC's performance, whilst there have been some victories in large business compliance, customer service and digitalisation, key areas of concern remain. These include the ever-increasing complexity of the tax system as well as continuing poor customer satisfaction.

In focus: Legal advice privilege applies to internal client communications within a corporate group

In a recent ruling, the Commercial Court has held that internal communications between members of a corporate client group can attract legal advice privilege, provided they were created for the dominant purpose of seeking legal advice, regardless of whether a lawyer was directly involved in the communication.

The decision provides clarity for large organisations navigating disclosure obligations, however the ruling does not alter the narrow definition of the "client" for the purposes of claiming legal advice privilege, which was confirmed in *SFO v ENRC* following the well-known Court of Appeal judgment in *Three Rivers (No.5).*

Background

Aabar Holdings S.À.R.L. & Ors v Glencore PLC & Ors [2026] EWHC 877 arose following multiple claims which were brought against Glencore by groups of investors. During the disclosure process, Glencore initially took a broad approach to asserting legal advice privilege, treating all employees as part of "*the client*" and withholding all communications made for the dominant purpose of seeking or receiving legal advice. After the claimants challenged this stance, Glencore altered its approach and disclosed around 885 previously withheld documents. However, it continued to withhold certain documents on a narrower basis: that privilege attached to communications between members of the designated "*client group*", irrespective of whether a lawyer was a party to the communication.

The claimants argued that, under the Court of Appeal's decision in *Three Rivers (No.5)*, legal advice privilege is confined to communications between the client and their lawyer, or documents that directly evidence, or were intended to be such communications. They applied for a court order requiring Glencore to produce all withheld intra-client documents that did not fall within those narrow categories.

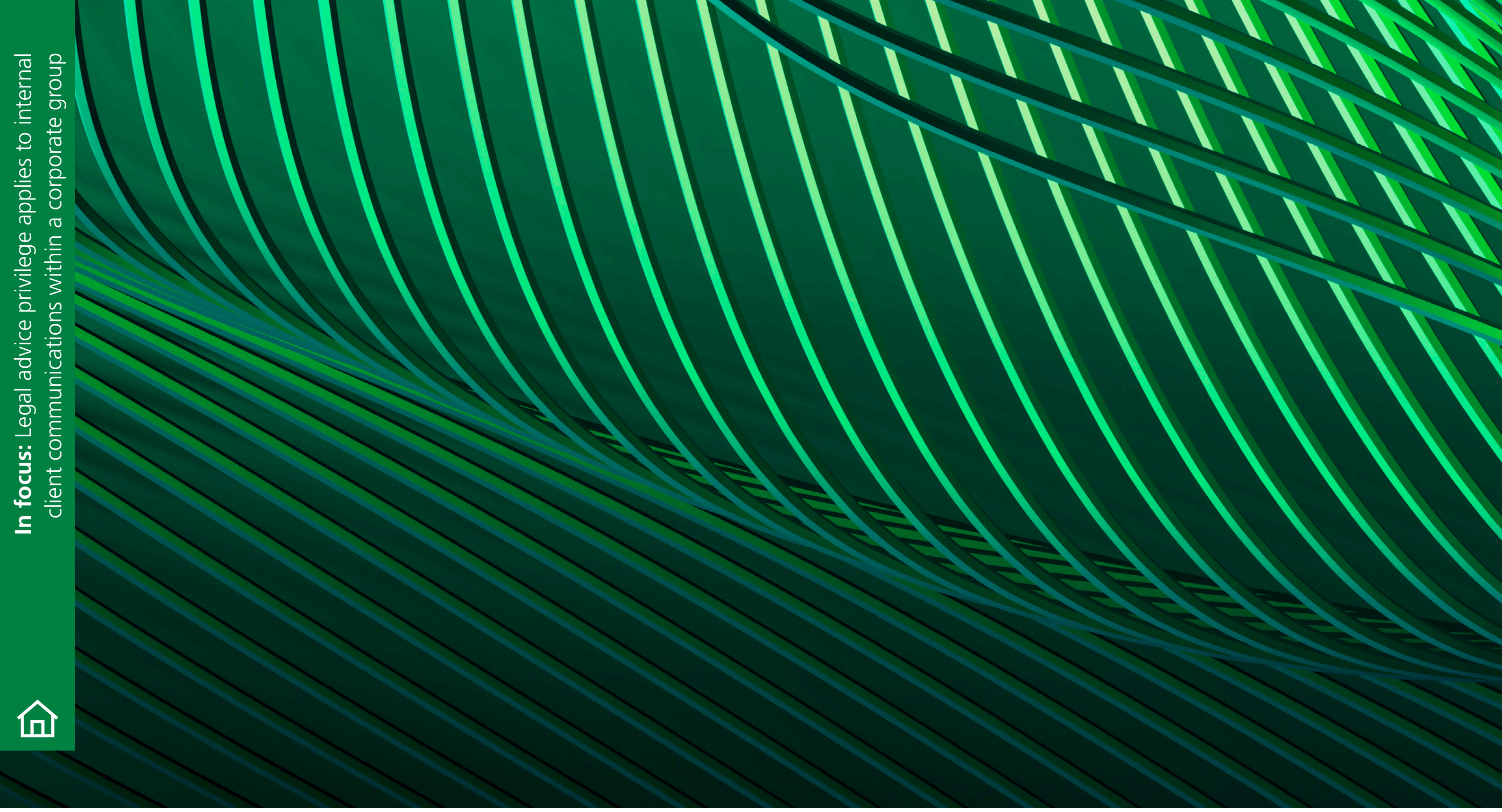
Issues before the Commercial Court

The court had to decide:

1. Whether *Three Rivers (No.5)* is binding authority preventing the assertion of legal advice privilege over internal client group documents, that is, communications between members of the client group where no lawyer is a party.
2. If not, whether, as a matter of principle, legal advice privilege can extend to such documents.

The Commercial Court's decision

Three Rivers (No.5) does not address internal client group documents
Mr Justice Picken conducted a detailed review of *Three Rivers (No.5)* and concluded that the case was concerned only with documents from outside the client group, that is, communications involving individuals outside the designated client group. The reasoning in *Three Rivers (No.5)* did not address what happens when both parties to a communication are within the client group.



The judge found that none of the subsequent authorities relied on by the claimants, including *Three Rivers (No.6), SFO v ENRC,* and In *re RBS Rights Litigation,* altered this analysis.

Privilege extends to internal client group documents as a matter of principle

Having concluded that no binding authority prevented it, the court went on to hold that, as a matter of principle, legal advice privilege should extend to internal client group documents created for the dominant purpose of seeking legal advice.

The judge identified a number of reasons why, in his view, a more restrictive position would be illogical:

- There is no principled distinction between an engagement letter sent to a lawyer identifying the issue on which advice is sought, and an internal document identifying that same issue before the lawyer has been consulted.
- An internal note made in preparation for a meeting with a lawyer will inevitably evidence the substance of a later privileged communication between a lawyer and their client. Therefore, denying such a document protection would be difficult to justify.
- If lawyers' working papers attract privilege, there is no reason why the equivalent *"client's working papers"* should not also be protected, provided they are sufficiently connected with the process of seeking legal advice.

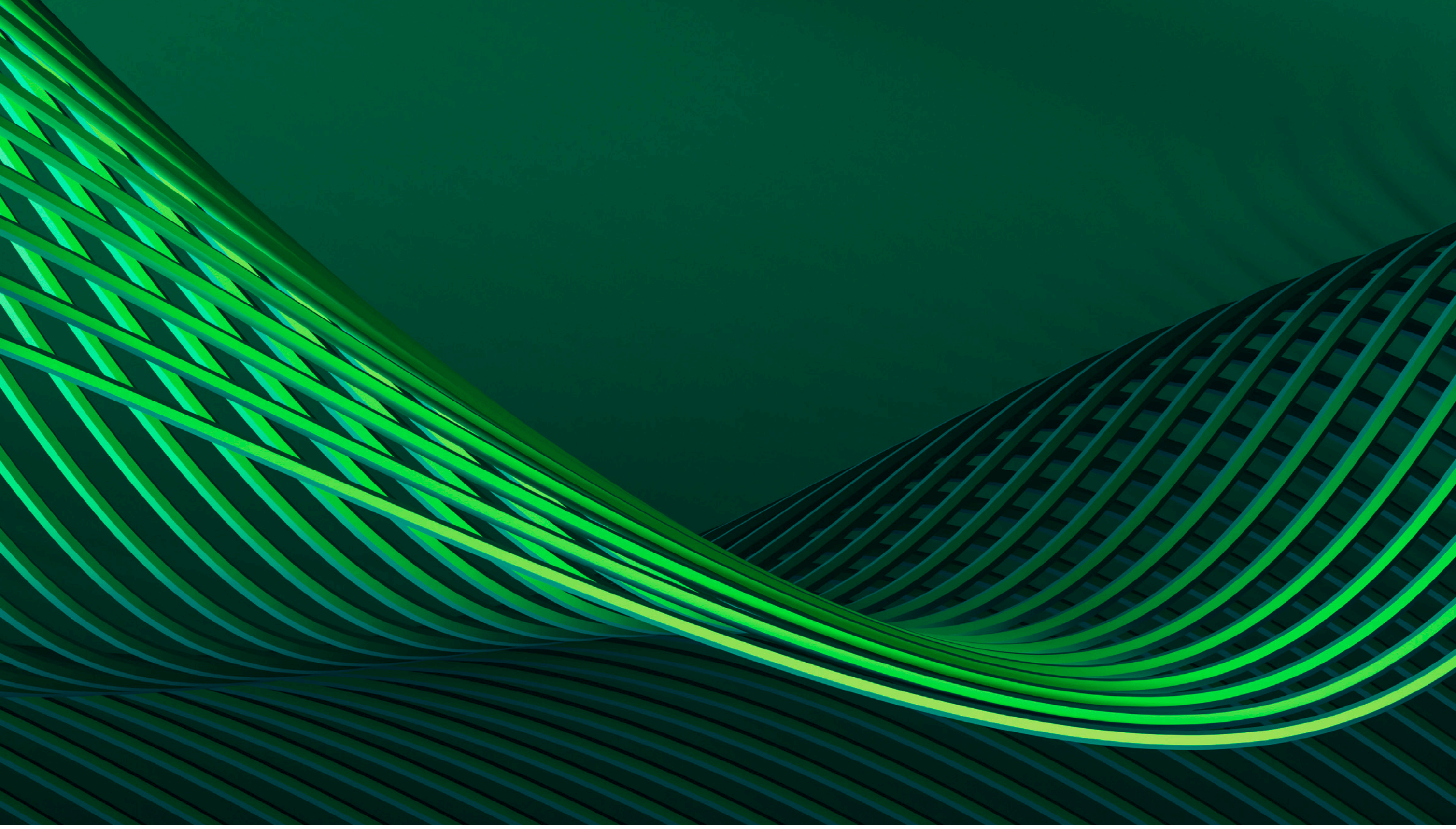
The judge found further support in the Court of Appeal's decision in *Jet2.com v CAA*, which confirmed that privilege can attach where the dominant purpose of a communication to people other than lawyers is to settle instructions for a lawyer.

Comment

This welcome decision has potential practical implications for businesses, particularly large organisations with complex internal structures. For example, companies may not need to ensure a lawyer is copied into every internal communication relating to the process of seeking legal advice, in order to preserve privilege over that communication. When deciding whether a document is privileged, the key consideration is the main purpose of the document, not whether a lawyer was directly involved. Nevertheless, given that this is high court authority, it is possible that this decision may be considered at appellate level.

The ruling does not, however, attempt to alter the fundamental principle of *Three Rivers (No.5)*, which the Court of Appeal confirmed in *SFO v ENRC* and *Jet2.com*, that communications between a company's lawyers and employees outside the designated client group do not attract legal advice privilege. An appeal to the Supreme Court would be required to change that position.

The use of AI by organisations did not fall to be considered by the court in this case. However, in light of this decision, the use of AI, which is increasingly



embedded in working practices, to prepare working papers raises an interesting question. Picken J agreed that information or thoughts prepared by a member of the client group, even though they would not be attending the meeting with the lawyer, and shared with another client group member for the purposes of seeking legal advice, would attract privilege. But does this remain the case if that client group member uses AI to generate that information? Or as a drafting partner to develop and refine their thoughts? Would it matter whether the client group member used a closed- or open-source AI tool? In particular, might the use of an open-source AI tool inadvertently send the information in question outside the client group? There is recent Upper Tribunal authority (albeit in the context of legal representatives putting client confidential information into AI tools) to suggest that putting confidential information into an open-source AI tool is tantamount to putting it in the public domain, whereby the information loses confidentiality and legal privilege is waived[1]. Of course, this is an Upper Tribunal decision and may be challenged in due course. However, while the law is developing in this area, it makes sense to exercise caution, including as to whether confidentiality remains intact when using open-source AI tools.

In practical terms, organisations should continue to consider taking the following steps to attract and preserve legal advice privilege:

- Review privilege protocols: Legal and compliance teams should revisit how they identify and protect internal communications within the client group made in the course of seeking legal advice, including preparatory emails, internal briefing notes, and working documents.
- Maintain the dominant purpose test: The protection only applies where the dominant purpose of the document is to seek legal advice. Documents created primarily for commercial or operational purposes will not qualify, even if shared within the client group.
- Define the client group clearly: Organisations should ensure they have a clearly defined and documented client group, being the individuals tasked with seeking and receiving legal advice, as this boundary remains central to privilege analysis.
- Keep records: Where internal documents are created in preparation for seeking legal advice, it is good practice to record that purpose contemporaneously, as this will assist in any subsequent privilege challenge.
- Open-source AI: Organisations should consider the AI tools at the disposal of their employees, and put in place policies and guidance to protect the confidentiality of their information when such tools are used.

[1] *UK v Secretary of State for the Home Department* (AI hallucinations; supervision; Hamid) [2026] UKUT 81 (IAC) paragraph 60

Key recent tax developments

LEGISLATION

Legislation Day ("L-Day")

A number of pieces of draft legislation for inclusion in the Finance Bill 26-27 were published on Monday 13 July, as part of the annual "L-Day" / "Legislation Day" event. The majority of the draft legislation relates to announcements which were made at the Autumn Budget 2025 and at Tax Update 2026 earlier this year (for which, see under **Fiscal Updates** below). The draft legislation is subject to technical consultation, and a number of further open consultations have also been released.

Key draft legislation released on L-Day included in respect of the following:

— **Taxpayer obligation to take corrective action and Customer Correction Notices:** A new obligation for taxpayers to take corrective action when they become aware of an inaccuracy in a return or document. HMRC will also be given a new power to issue Customer Correction Notices, which require a taxpayer to check their position, and either correct the inaccuracy or explain why no correction is needed.

— **Modernising HMRC's civil information and inspection powers:** Updating HMRC's civil information and inspection powers (in Schedule 36 of the Finance Act 2008) and definitions relating to computer records (in section 114 FA 2008). The updates are intended to ensure that HMRC can access and process information held in modern digital systems and continue to meet international information exchange standards.

— **Modernising the stamp taxes on shares framework:** Stamp duty and SDRT will, following several years of consultation, be replaced with a new *"securities transfer tax"*. An update on the commencement date, which will be at some point during 2027, will be provided in the autumn.

— **Reform of the foreign permanent establishment exemption:** Mandating the exemption for foreign permanent establishment profits and losses from UK tax, building upon the current elective regime, with effect for accounting periods commencing 1 January 2027. A transitional regime will prevent companies carrying losses and other amounts allocated to a foreign PE into a post-transition period. A number of anti-avoidance / anti-circumvention measures are included.

— **Pillar Two side-by-side package, and other updates:** Introducing the Pillar Two side-by-side package into UK legislation (for accounting periods beginning on or after 1 January 2026) and making amendments to the multinational top-up tax and domestic top-up tax to ensure consistency with commentary and administrative guidance (for accounting periods beginning on or after 31 December 2026).

— **New oil and gas revenue levy:** Replacing the energy profits levy (once it ends, which is expected to be on 31 March 2030, but will be earlier if the Energy Security Investment Mechanism is triggered) with a new permanent levy: the oil and gas revenue levy.

— **Exploration and exploitation rights:** Treating exploration and exploitation rights in relation to activities undertaken in the UK, or on the UK continental shelf, as immovable property. This will have effect in relation to accounting periods beginning on or after 1 April 2027 for corporation tax purposes and will have effect from 6 April 2027 for income tax purposes.

— **Removing requirement for notification of grant of EMI options**: Removing the requirement to submit a notification of a grant of Enterprise Management Incentives (EMI) options (for options granted on or after 6 April 2027).

— **Authorised surplus payments for defined benefit pension schemes:** Allowing defined benefit pension schemes to make authorised surplus payments to members (for payments made on or after 6 April 2027), which will enable surplus funds to be payable directly to members.

— **New ISA compliance framework:** Introducing an ISA compliance framework that supports digital reporting and ensures the ISA system operates as intended (from April 2028).

— **VAT accounting rules relating to the deposit return scheme:** Introducing new VAT accounting rules for supplies made under the statutory deposit return scheme.

— **Local government pension scheme SDLT relief:** Introducing a time-limited relief from SDLT on transfers of property from administering authorities into qualifying pooled investment vehicles established by local government pension scheme asset pool companies. This measure will have effect for land transactions, with an effective date between Budget Day 2026 and 31 March 2032.

— **Tax treatment of stablecoins:** Treating eligible stablecoins more like money for tax purposes, and certain interest-like returns from eligible stablecoins as interest taxable as savings income.

- **Cryptoasset loans and liquidity pools:** Introducing measures to align the capital gains tax ("**CGT**") treatment of disposals involving cryptoasset loans and liquidity pools as being *"no gain no loss"*, which will generally defer CGT until an economic disposal of the cryptoasset.
- **Mandatory reporting of benefits in kind:** Introducing the framework for mandatory reporting through Real Time Information, and deduction in real time, from April 2027.

Trust Registration Service expansion

The Money Laundering and Terrorist Financing (Amendment) Regulations 2026 came into force on 30 June 2026 and significantly expand the scope of the Trust Registration Service ("**TRS**") by requiring most non-UK express trusts holding UK land to register, regardless of when the land was acquired. Previously, registration was generally only required where UK land was acquired on or after 6 October 2020 (subject to no other reporting triggers being met). The new regulations extend the registration requirement to non-UK trusts holding UK land as at 30 June 2026, regardless of when such land was acquired, with a registration deadline of 1 September 2027.

The regulations also introduce a *de minimis* exemption from registration in relation to certain levels of trust assets, amend registration deadlines for trusts created on death, exempt Scottish survivorship trusts from registration and remove SDRT from the list of taxes that can trigger taxable trust registration. For further information on the practical impact of these changes, please refer to the CMS Legal Update here.

Electricity Generator Levy rate increase and extension

The Government first announced changes to the electricity generator levy ("**EGL**") in April 2026, as part of wider plans to reduce the impact of international gas prices on electricity bills. The Taxation (Energy and Vehicles) Act 2026 received Royal Assent on 15 July 2026, increasing the rate of the EGL from 45% to 55% with effect from 1 July 2026. The EGL has also been extended beyond its currently scheduled end date of April 2028.

HMRC have published guidance suggesting that where a company's corporation tax accounting period straddles 1 July 2026, receipts will be apportioned pro rata. A transitional rule applies for large and very large companies that have quarterly instalment payments, whereby such companies will not be obliged to reflect the increased rate before the legislation receives Royal Assent, but will have to account for the EGL liability covered by the transitional rule (plus interest) in the payment immediately following the date Royal Assent is received.

Annual Cash ISA subscription limit

Draft regulations have been released for a technical consultation on setting the annual Cash ISA subscription limit for investors below the age of 65 at £12,000 from 6 April 2027, as announced at the last Autumn Budget.

Updates to the Capital Goods Scheme

The Value Added Tax (Amendment) Regulations 2026 have been made implementing the following changes to the Capital Goods Scheme (CGS) from 29 July 2026:

- Computers and items of computer equipment will be removed from the list of assets covered by the scheme;
- The expenditure threshold for land, buildings and civil engineering work will increase from its current value of £250,000 (exclusive of VAT), to £600,000 (exclusive of VAT).

Where an owner has incurred capital expenditure on land, buildings, civil engineering works or computers and computer equipment in respect of supplies of goods or services received, goods imported or goods acquired from a member state before 29 July 2026, the changes made by this measure will not apply. The new threshold value and the removal of computers from the scheme will only apply where an owner has not incurred any capital expenditure on the item in respect of supplies of goods or services received, goods imported or goods acquired from a member state before 29 July 2026. It is currently unclear whether new expenditure in relation to an item owned prior to 29 July 2026 will qualify for the new £600,000 threshold.

Inheritance tax on unused pension funds and pension death benefits

The Registered Pension Schemes (Provision of Information) (Miscellanous Amendments) Regulations 2026 have been made introducing a number of requirements related to bringing unused pension funds and pension death benefits within the scope of IHT from 6 April 2027. These aim to ensure that the personal representatives ("**PR**") of the relevant estate can submit a complete IHT account to HMRC, with the required information to be supplied to the PR by the pension scheme administrators. The regulations come into force on 6 April 2027 and apply to deaths on or after that date.

Legal professional privilege

The Anti-avoidance Information Notices (Resolution of Disputes as to Privilege) Regulations 2026 (SI 2026/560) were made on 27 May 2026 and came into force on 19 June 2026. The Regulations establish a formal procedure for resolving disputes between HMRC and individuals or businesses who receive certain anti-avoidance information notices connected with the promotion or facilitation of tax avoidance, where the recipient considers that the information requested is protected by legal professional privilege. Where such a dispute arises, the Regulations provide for resolution either by agreement (with the recipient providing a description of the allegedly privileged information to HMRC) or, if the parties cannot agree, by application to the Tribunal. Importantly, provided the recipient has followed the steps set out in the Regulations, they will be treated as having complied with the information notice in respect of the disputed information until the matter has been resolved.

Mandatory due diligence

HMRC have published a consultation on the draft Data-gathering (Ongoing Data) Regulations 2026. These introduce new ongoing data-reporting, notification and due diligence obligations for financial institutions and merchant acquirers from 6 April 2028. This marks a significant departure from how HMRC have been able to collect similar information to date; at present, similar data is only required to be reported to HMRC if the relevant data holder receives a notice to do so.

In-scope financial institutions and merchant acquirers will be required to give a one-off advance notice of their obligation to report. Under the draft regulations, financial institutions (which has the same meaning as for CRS purposes, with the exclusion of Specified Insurance Companies) will have to report annual (tax year) and quarterly data to HMRC, including on interest amounts, account details and recipient identifying information. Merchant acquirers will have to report monthly data on payment card transaction details and retailer identifiers. Those providing data to HMRC must take such steps to verify the data provided as may be specified by HMRC by published notice. Penalties will apply for failure to meet due diligence and reporting requirements, as well as for failure to keep or preserve records.

FISCAL UPDATES

Autumn Budget 2026 date confirmed

The Chancellor, John Healey, announced in a letter to the Treasury that the Autumn Budget will be held on Wednesday 28 October. This will be alongside an economic and fiscal forecast from the Office for Budget Responsibility.

Great British Summer Savings – temporary VAT reduction

A new VAT Order has been introduced to implement a temporary reduced VAT rate of 5% on certain supplies of children's meals, children's tickets, and family attractions from 25 June 2026 to 1 September 2026 inclusive.

HMRC have also published a Business Brief and a new section of their Guidelines for Compliance ("**GfC**") 8 (GfC 8 – help with VAT compliance controls) covering the temporary reduced rate.

Zero-rate for domestic electricity supplies

The Treasury has announced that the zero-rate of VAT will temporarily apply for supplies of *"domestic electricity"* from 1 October 2026 to 31 March 2027. Supplies of domestic electricity are currently reduced rated under Item 1(e) of Group 1 of Schedule 7A to the VAT Act 1994, which applies to supplies for the *"qualifying use of… electricity, heat or air-conditioning"*. *"Qualifying use"* includes *"domestic use"* and *"use by a charity otherwise than in the course or furtherance of a business"*. Supplies of electricity to a person at a premises are deemed to be for domestic use where the electricity (together with any other electricity provided to them at the premises by the same supplier) was not provided at a rate exceeding 1000 kWh hours a month. HM Treasury's announcement confirms that the zero-rate will also apply to *"small businesses who qualify for the domestic energy VAT relief and are not registered VAT, and charities and residential care homes"*.

Tax Update 2026

On 23 June, the Government published a number of documents as part of Tax Update 2026 relating to the *"simplification, modernisation and fairness of the tax and customs system"*.

Key updates include:

— **Proposed criminal offence for making reckless untrue statements in direct tax.** A consultation on introducing a criminal offence for making reckless untrue statements or declarations in direct tax (aligning with the regime for indirect tax). The proposed new offence would apply to any agent who recklessly makes an untrue statement or declaration to HMRC in relation to a direct tax matter. More detail under **Consultations** below.

— **Extending VAT online marketplace liability rules:** A consultation on the proposed extension of the VAT online marketplace liability rules to cover sales by UK based businesses, including domestic sales of goods such as retail items and takeaway food.

— **Promoters of tax avoidance schemes ("POTAS") amendments:** Amendments to the legislation tackling promoters of tax avoidance, including extending POTAS to cover VAT avoidance more fully.

— **Reforming and modernising HMRC's information and inspection powers:** Draft legislation on this proposal was published as part of L-Day.

— **HMRC better use of VAT data:** The Government will explore the better use by HMRC of VAT data that businesses already hold in their digital accounting systems.

— **Modernising the distributions framework consultation:** A wide-ranging consultation "modernising the distributions framework" has been published by HMRC, to explore modernising the taxation of distributions and repayments of capital made by companies to shareholders who are individuals or trusts. More detail under **Consultations** below.

— **New zero-rate of VAT for the sale of land intended for the construction of social housing.**

— **Digital channels for option to tax:** The introduction of new digital channels for submitting option to tax notifications and revocations, replacing existing paper-based processes, to be live before the end of 2026.

— **Cash ISA £12,000 annual limit anti-circumvention rules:** A 22% charge on interest paid on cash holdings held within Stocks & Shares ISAs, to prevent circumvention of the ISA reforms announced at the Autumn Budget 2025 (whereby the annual Cash ISA limit for under 65s will be capped at £12,000 from 6 April 2027, down from £20,000). Other anti-circumvention measures will also be introduced.

— **Regularising certain existing National Insurance contributions easements for internationally mobile individuals.**

— **CGT gift holdover relief modernisation:** The measure will update the gift holdover rules that to solve an apparently inadvertent anomaly in the law which was leading to unfair outcomes in relation to the amount of holdover relief available to some taxpayers.

— **A summary of responses to the consultation on land remediation relief.**

CONSULTATIONS

L-Day consultations

Alongside draft legislation, a number of consultations were released on the following.

- **Simplifying treaty relief from withholding tax on interest paid overseas.** The consultation proposes a number of options for simplifying treaty relief (although this does not include considering the paused concessionary treatment).
- **The tax treatment of predevelopment costs.** This follows the decision of the Supreme Court in the case of *Orsted West of Duddon Sands (UK) Ltd and others v HMRC* [2026] UKSC 0069. The consultation seeks to understand (i) whether businesses are currently uncertain on the tax treatment of predevelopment costs (including in light of HMRC's updated guidance) and (ii) to understand the commercial impact of the current legislation.
- **Aligning the time limits for recovery of national insurance contributions debt with income tax.**
- **Land remediation relief.** This seeks views on changes to the timing of the relief, aligning eligible contamination expenses with planning processes and how to define and provide relief for long-term derelict land.

UK tax resident members of US LLCs and other reverse hybrid entities

HMRC released a consultation on reforming the taxation of UK-resident members of certain reverse hybrid entities, including US limited liability companies (LLCs). The key reforms would permit eligible UK-resident individuals to elect to treat their interests in such entities on a transparent basis for income tax and CGT purposes.

The consultation reflects a broader policy objective of addressing cross-border mismatches and improving the competitiveness of the UK tax system for internationally mobile capital and hybrid structures. The consultation closed on 31 July 2026.

Proposed criminal offence for making reckless untrue statements in direct tax

A consultation on the introduction of a *"reckless untrue statements"* criminal offence for direct tax matters was launched. The offence would apply to agents and advisers, as well as taxpayers, and under current proposals would extend to oral statements and those made implicitly by actions. It would not be necessary for the statement to be made in a tax return, for example. The proposed offence would carry a two-year custodial sentence and/or unlimited fine.

Modernising the distributions framework

The Government launched a wide-ranging consultation *"modernising the distributions framework"*, to explore modernising the taxation of distributions and repayments of capital made by companies to shareholders who are individuals or trusts.

The stated intention of the consultation is to remove distortions, without undermining commercial practice; there is a particular focus on structures and practices where capital treatment can be achieved. The proposals could fundamentally change how share buybacks, demergers and returns of capital are structured.

Key proposals from this consultation include the following:

- Changes to prevent shareholders from inserting a new holding company ("**NewCo**"), via a share-for-share exchange, that has a nominal share capital (plus premium) equal to the market value of the existing company. The consultation proposes capping the value of NewCo's capital at the CGT base cost of the existing company. As a result, further share buybacks and other returns of capital would reflect this 'frozen' amount of share capital in NewCo (i.e. the subscription amount in the existing company), resulting in income distributions rather than capital treatment;
- Proposals to relax the conditions for statutory demergers;
- Extending the charge to income tax on dividends received from a non-UK resident company. At present, income tax is only charged on such dividends to the extent they are not dividends of a capital nature (s.402 ITTOIA 2005).;
- Clarifying the treatment of unlawful or invalid distributions made to participators in close companies;
- Introducing a new tax charge on loans made by non-UK resident close companies to their participators and merging the existing loans to participators rules with the distributions code, to produce better alignment between the two regimes;
- Replacing the "*trade benefit*" test in the unquoted companies share buyback rules (s.1033(2) CTA 2010) with a more mechanical set of requirements;
- Amending or replacing the transactions in securities rules with an updated anti-avoidance regime that is intended to be clearer and more principles-based.

New International Controlled Transactions Schedule (ICTS)

A technical consultation was published on the introduction of a new International Controlled Transactions Schedule ("ICTS"), to be filed alongside a taxpayer's corporation tax return and providing standardised, transaction-level data on cross-border related-party dealings. The new reporting requirement is intended to "facilitate automated, data-led risk assessment by HMRC, permitting more accurate identification of transfer pricing risk, improving fairness and increasing efficiency". The stated intention is that the ICTS reporting requirement will take effect for accounting periods beginning on or after 1 January 2027. The consultation, which closes on 31 July 2026, seeks views on draft regulations, a draft HMRC notice and a draft template illustrating the information that would need to be filed annually. It is expected that a draft statutory instrument will be laid in late 2026.

Key HMRC Guidance Updates

Capital gains anti-avoidance guidance

HMRC published final guidance (CG-APP20, an annex to the Capital Gains Tax Manual) on the application of the capital gains anti-avoidance rules in section 137 of the Taxation of Chargeable Gains Act 1992 following amendments introduced by Finance Act 2026.

The revised rules became effective on 26 November 2025. They apply where arrangements have a main purpose, or one of the main purposes, of securing a tax advantage and represent a key development in HMRC's ability to make "just and reasonable" adjustments targeted at those shareholders obtaining a tax advantage, rather than disapplying section 135 in full. The guidance replaces interim guidance issued in December 2025 (CG-APP19) and clarifies a number of important concepts.

The guidance confirms that:

- Tax deferral is not, in itself, tax avoidance;
- Whether arrangements reduce or avoid a tax liability is assessed objectively, and operates in a similar way to rules that refer to arrangements resulting in a "tax advantage"; and
- It is open to taxpayers to self-assess the application of the rules where they consider them to apply to a transaction.

The guidance also includes examples of arrangements which, although reducing tax, are unlikely to fall within section 137, including certain corporate restructurings undertaken to access beneficial regimes, provided their conditions are not circumvented.

Although largely superseded, the earlier provisional guidance remains relevant for transitional matters, particularly for clearance applications made prior to the legislative changes. HMRC have indicated that the updated guidance will be incorporated into the main manual in due course.

Advance Tax Certainty Service

Expressions of interest opened on 1 June 2026 for the new Advance Tax Certainty Service. An HMRC manual has been published to support customers with the operation of the service.

Tax adviser registration

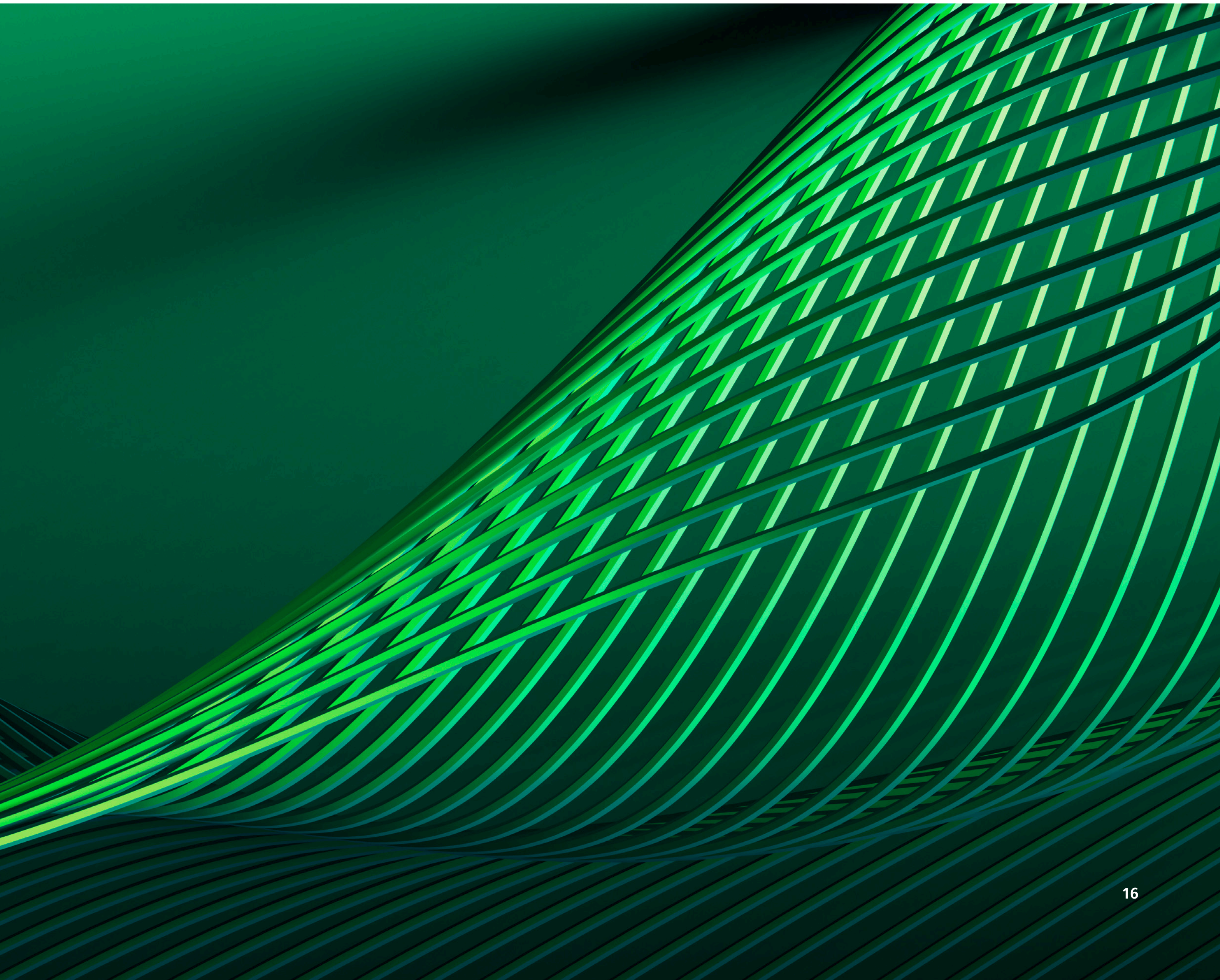
HMRC have published a new Mandatory Tax Adviser Registration Manual. The mandatory tax adviser registration regime took effect from 18 May 2026. Under these rules, anyone who interacts with HMRC on behalf of someone else's tax affairs in return for payment must register with HMRC, unless a specific exception applies.

CIS clarification for pure lending arrangements

HMRC have updated their CIS guidance to confirm that pure financing arrangements, including lending, providing finance and grant funding, fall outside the scope of CIS. The clarification follows earlier HMRC guidance which suggested that a business could become a contractor for CIS purposes where it entered into a contract that "funds construction operations", even if construction was not its main role. HMRC have now updated their CIS manual, at CISR14020, to state that this does not apply to pure finance arrangements. A lender should not be treated as a CIS contractor merely because it provides funding for a borrower's construction project. HMRC's guidance indicates that CIS may apply where, looking at the substance of the arrangement, the funder is effectively procuring construction operations.

HMRC Reports and Statistics

A number of reports have recently been released, covering tax revenue, HMRC transformation, the tax gap, and taxpayer satisfaction with HMRC. These are discussed in our In Focus article, *Recent publications offer further insights into HMRC's mixed performance.*



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.

Non-domicile tax changes (April 2026)

HMRC have begun issuing one-to-many letters to taxpayers they believe are affected by the 6 April 2025 changes to the tax regime for those domiciled outside the UK. The letters set out that the concept of domicile status in the UK has been replaced by a system based on tax residence and includes an overview of the foreign income and gains regime, the temporary repatriation facility, CGT rebasing, the removal of trust protections in relation to settlor-interested trusts, and the new overseas workday relief rules. The letter encourages recipients to review the changes with their appointed tax adviser and to refer to HMRC's 'UK tax residence guidance.'

VAT on prize draw tickets (July 2026)

HMRC have issued a new nudge letter campaign directed at businesses who run prize draws. The letters ask operators to review their VAT returns to ensure that the correct VAT treatment is applied to prize draw tickets. This is relevant for operators offering prize draws where paid and free postal entries are available. HMRC consider that prize draws are not VAT exempt, which would result in paid entries for prize draws being subject to VAT at the standard rate of 20%.

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.

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