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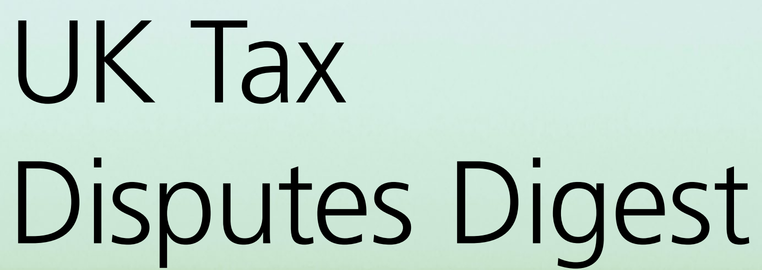

UK Tax Disputes Digest

Spring 2026

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Introduction

Welcome to the spring 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 a key capital allowances decision on pre-construction surveys and studies.

We also analyse key data-driven findings and analysis in a new CMS report, 'Tax under scrutiny: HMRC disputes and pressure points', which collates and analyses HMRC's investigation and litigation activity since 2018.

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: Tax Under Scrutiny - HMRC Disputes and Pressure Points

A more assertive HMRC

HMRC's approach to tax compliance is increasingly proactive. With tax revenues rising, political pressure to close the tax gap intensifying, and HMRC investing heavily in data-driven enforcement, businesses are operating in a far more assertive compliance environment.

Total "tax under consideration" for large businesses rose by 51% over the last six years – from £34.8 billion in 2019–20 to £52.6 billion in 2024–25 – and more than doubled for the wealthy and mid-sized business ("WMBC") category, from £7.1 billion to £14.3 billion. HMRC is bolstered by thousands of newly recruited compliance officers, expanded digital reporting requirements and strong information-gathering powers. As a result, taxpayers should expect scrutiny.

The tax gap itself stands at £46.8 billion, or 5.3% of total theoretical tax liabilities, for the 2023–24 tax year. Critically, failure to take reasonable care and error – rather than avoidance or evasion – together make up 46% of the gap.

HMRC is responding with a range of "upstream" measures, including nudge letters, educational campaigns and business risk reviews, designed to prompt voluntary correction before formal enquiries are opened. In addition, HMRC is seeking to obtain enhanced information regarding taxpayer activity. For example, there is currently a consultation on extending and enhancing the scope of the uncertain tax treatment regime, so as to require disclosure where HMRC's position is not known and there is more than one credible interpretation. A further such consultation seeks views on proposals to introduce new requirements to report transactions between close companies and their participators to HMRC. Finally, HMRC is starting to focus upon cross-tax audit-based reviews of large taxpayers.

Corporation tax: the fastest-growing gap

Corporation tax is now the most material tax gap by value, having nearly tripled over six years from £6.3 billion in 2018–19 to £18.6 billion in 2023–24. This surge is attributable in part to the increase in the main rate of corporation tax from 19% to 25% on 1 April 2023. Corporation tax is the highest gap by monetary value despite being only the fourth-highest tax by revenue, making it a prime candidate for intensified HMRC review.

Targeted HMRC campaigns are already under way. Areas such as the deductibility of management expenses and the "unallowable purpose" rule are the subject of specific nudge letter campaigns and dedicated compliance activity. HMRC was successful before the Supreme Court in 2024 in arguing that professional advisory fees relating to the sale of a subsidiary were capital in nature, and therefore not deductible as expenses of management – a decision that signals further challenges ahead. More recently, HMRC has issued a nudge campaign aimed at companies which act as holding companies for overseas subsidiaries, in circumstances where the expenses give rise to a benefit to a connected party. For the WMBC category, income and expenses and R&D claims are the fastest-growing areas of scrutiny, with R&D "tax under consideration" rising from £0.06 billion to £0.78 billion over the review period. Businesses should ensure that corporation tax positions are defensible and contemporaneously evidenced.

Financial services: persistent scrutiny at every level

Financial services remains the sector with the largest amount of "tax under consideration". It is also one of two sectors that dominate senior court litigation, reflecting both the scale of tax at stake and the sophistication of the taxpayers involved.

At Supreme Court level, financial services and insurance are one of the three areas with the highest number of cases throughout the review period. That pattern is replicated at the Court of Appeal and, to a lesser extent, the Upper Tribunal. Disputes in financial services tend to involve the highest amounts of tax and the most complex technical issues, meaning litigants on both sides are willing to pursue cases to the very highest level of appeal (whereas the Upper Tribunal may end up being the final appellate hearing for cases of lower value or complexity). The availability of VAT exemptions for financial services – particularly in light of post-Brexit divergence between UK and EU jurisprudence – is a key area of ongoing uncertainty. Financial services businesses should expect persistent HMRC attention and should maintain litigation-ready files and robust transfer pricing policies, given that "international" is the consistently largest "tax under consideration" category for large businesses.

Real estate: a growing area of focus

Real estate features as a distinct sector in court-level data, with cases appearing before the Supreme Court, Court of Appeal and Upper Tribunal throughout the review period. Stamp taxes – including stamp duty land tax ("SDLT") – remain a recurring source of disputes for the sector, appearing as a standalone tax category across all levels of the courts. Looking ahead, a number of real estate joint venture structures look uncertain from a Pillar Two perspective, with the rules sometimes producing results which may be unanticipated.

Looking ahead: practical steps for businesses

HMRC's litigation record is strong: over 70% success on average across all courts, rising to 93% at the First-tier Tribunal in 2024–25. Taxpayer success improves at the highest appellate levels. HMRC's average success rate at the Supreme Court is approximately 60%. However, well-prepared taxpayers with a sound technical basis for challenge can and do succeed, and understanding how HMRC approaches litigation strategy is key to achieving a favourable outcome.

For many businesses, early resolution through alternative dispute resolution may be optimal; ADR is becoming more prevalent and can significantly reduce the time and cost of prolonged litigation, though it may be less appropriate in binary or policy cases. Each case should be assessed on its merits.

Given this environment, businesses should take a number of practical steps to minimise and manage dispute risk. First, accuracy and robust governance should be prioritised - failure to take reasonable care, rather than avoidance or evasion, is the single largest component of the tax gap, making sound internal processes an important defence. Second, strong record-keeping and evidence management are essential: retention of contemporaneous evidence is critical, particularly in cases involving detailed factual analysis, and poor- quality documentary or witness evidence can result in losing a case on a finding of fact that may be impossible to rectify on appeal. Businesses should maintain litigation-ready files, preserve factual evidence and document commercial rationale whenever taking decisions that may affect tax treatment, and actively manage risks from staff turnover and missing documentation.

Third, early engagement with specialist advisers is vital, helping to develop robust arguments in areas of complexity and to withstand HMRC scrutiny. This is key in international tax, which is now the dominant area of HMRC focus for both large businesses and the WMBC category. Areas such as transfer pricing, Pillar Two, permanent establishment risks, anti-hybrid rules and controlled foreign company rules require robust policies, methodologies and contemporaneous evidence, and businesses with complex overseas structures should consider best practice for consistent dealings with overseas tax authorities. Finally, cooperative compliance remains a valuable opportunity to manage the HMRC relationship proactively. HMRC's upstream compliance focus, including nudge letters, business risk reviews and educational campaigns, provides ongoing opportunities to review and correct tax positions before disputes arise.

Businesses should assume HMRC enters disputes from a position of strength and be litigation-ready from the very first informal information request. Strong governance, contemporaneous documentation, retention of evidence, and early engagement with specialist advisors are the essential foundations for reducing risk in this increasingly assertive compliance environment.

CMS has published its data-driven findings and analysis in a new report, 'Tax under scrutiny: HMRC disputes and pressure points'. This collates and analyses HMRC's investigation and litigation activity since 2018.

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In focus: Supreme Court decision on eligibility for Capital Allowances for offshore windfarm surveys and studies

Overview

In a unanimous decision, the Supreme Court has allowed HMRC's appeal and significantly narrowed the circumstances in which expenditure on pre-construction surveys and studies qualifies for plant and machinery capital allowances under section 11(4) of the Capital Allowances Act 2001 ("**CAA 2001**").

This decision is of particular significance for: (i) developers of large-scale energy and infrastructure projects (as the net of tax cost of developing such projects has increased); and (ii) buyers and sellers in M&A transactions involving energy and infrastructure projects (where the allocation and treatment of such pre-construction costs may affect the value of capital allowance pools and, consequently, the tax attributes assumed to be available for valuation purposes).

The decision also highlights the considerable cost pressures that developers of major offshore projects face prior to a project's final investment decision, including the significant expenditure required on essential preparatory surveys and studies such as subsea surveys before planning permission is granted. As we discuss further below, these cost pressures, compounded by the inability to claim capital allowances on such expenditure, raise broader questions about project economics and the adequacy of existing support mechanisms during the development phase, including whether alternative models such as the Regulated Asset Base model should be explored.

In this article we provide an overview of the decision, and the practical implications for industry participants arising from this decision.

Background

The case concerned four offshore windfarm projects (the Gunfleet Sands Offshore Wind Farm I, the Gunfleet Sands Offshore Wind Farm II, the Walney Offshore Wind Farm and the West of Duddon Sands Offshore Windfarm), each developed by Ørsted. Substantial expenditure was incurred on a wide range of surveys and investigating many different aspects of the environment in which the projects would be constructed; this included landscape and seascape assessments, ornithology and collision risk studies, marine mammal studies, noise assessment studies and geophysical and geotechnical studies. The majority of the surveys and studies in question were required to support an environmental impact assessment needed before planning consent could be obtained for the construction of the relevant project.

Ørsted claimed capital allowances on the cost of the relevant surveys and studies on the basis that they were capital expenditure "on the provision of plant" within section 11(4)(a) of CAA 2001 and therefore qualified for plant and machinery allowances.

The First-tier Tribunal held that most of the expenditure on the surveys and studies in dispute did qualify for capital allowances but the Upper Tribunal allowed HMRC's appeal and held that none of the expenditure qualified. The Court of Appeal subsequently allowed Ørsted's appeal and held that all the expenditure qualified, which resulted in HMRC appealing to the Supreme Court.

The Supreme Court's decision

The core question before the Supreme Court was whether the costs of the pre-construction surveys and studies constituted "capital expenditure on the provision of plant" within section 11(4)(a) of CAA 2001.

The Supreme Court held that the phrase "on the provision of" within section 11(4)(a) of CAA 2001 demands a close connection between the expenditure and the plant itself. The Supreme Court distinguished the leading authorities — Barclay, Curle (concerning dry dock excavation) and Ben-Odeco (concerning loan interest) — and concluded that neither supported the broad interpretation of this phrase adopted by the Court of Appeal. The Supreme Court made the distinction between costs inherent in acquiring, transporting and installing the plant which can constitute qualifying expenditure and expenditure on studies and surveys which provide advice, information or data about how to choose, design or locate plant which was considered a too remote a connection. The Supreme Court found that the surveys and studies were not incorporated into the physical windfarm assets and did not become part of the plant itself. They were undertaken to assess environmental impact, risks and options, or to satisfy regulatory requirements, rather than to provide or install plant. The Supreme Court's view was that capital allowances are designed to reflect the gradual deterioration of the asset through wear and tear and that this points to the narrowness of the concept of qualifying expenditure.

The Supreme Court allowed HMRC's appeal which has resulted in none of the disputed survey and study costs qualifying for plant and machinery allowances. As it was accepted that the expenditure on the surveys and studies was capital in nature and not revenue expenditure, no corporation tax deduction is available for Ørsted in respect of the expenditure. This has the effect of increasing the overall net of tax costs associated with the construction of the projects.

Ørsted had argued that that the purpose of the capital allowances code is to ensure that a business is taxed on its true profits. However, the Supreme Court rejected this argument, noting that accounting principles are not determinative from a tax perspective.

The Supreme Court noted that renewable energy is certainly a sector which the government has tried to incentivise. However, the Supreme Court concluded that, "One cannot rely on the broad purpose of a provision to define where the precise boundary lies between what is caught and what is not caught". This perhaps underlines the limits upon the purposive approach to statutory interpretation.

It is also worth noting that the Supreme Court left open the question of whether the cost of producing the final technical drawings and specifications as specified by the developer (i.e. before the plant is actually manufactured) — those which are then directly "made real" by the manufacturer — might qualify. By implication, costs which pre-date those incurred in connection with contracted design works (e.g. where the scope of work under an EPC contract includes general and detailed engineering design works) may not qualify. This means that a key point of concern moving forward will be the extent to which conceptual or front-end engineering design studies undertaken prior to the detailed design / detailed engineering phase can qualify for capital allowances. The judgment is silent on the distinction between final pre-fabrication drawings and red-line/ as-built drawings, and the Supreme Court expressly declined to rule on the broader category of final technical drawings at all. The decision leaves open the possibility that red-line drawings produced during testing and commissioning — if they can be shown to be integral to the installation process — might also qualify. These remaining areas of uncertainty mean the position will need to be assessed carefully on a case-by-case basis.

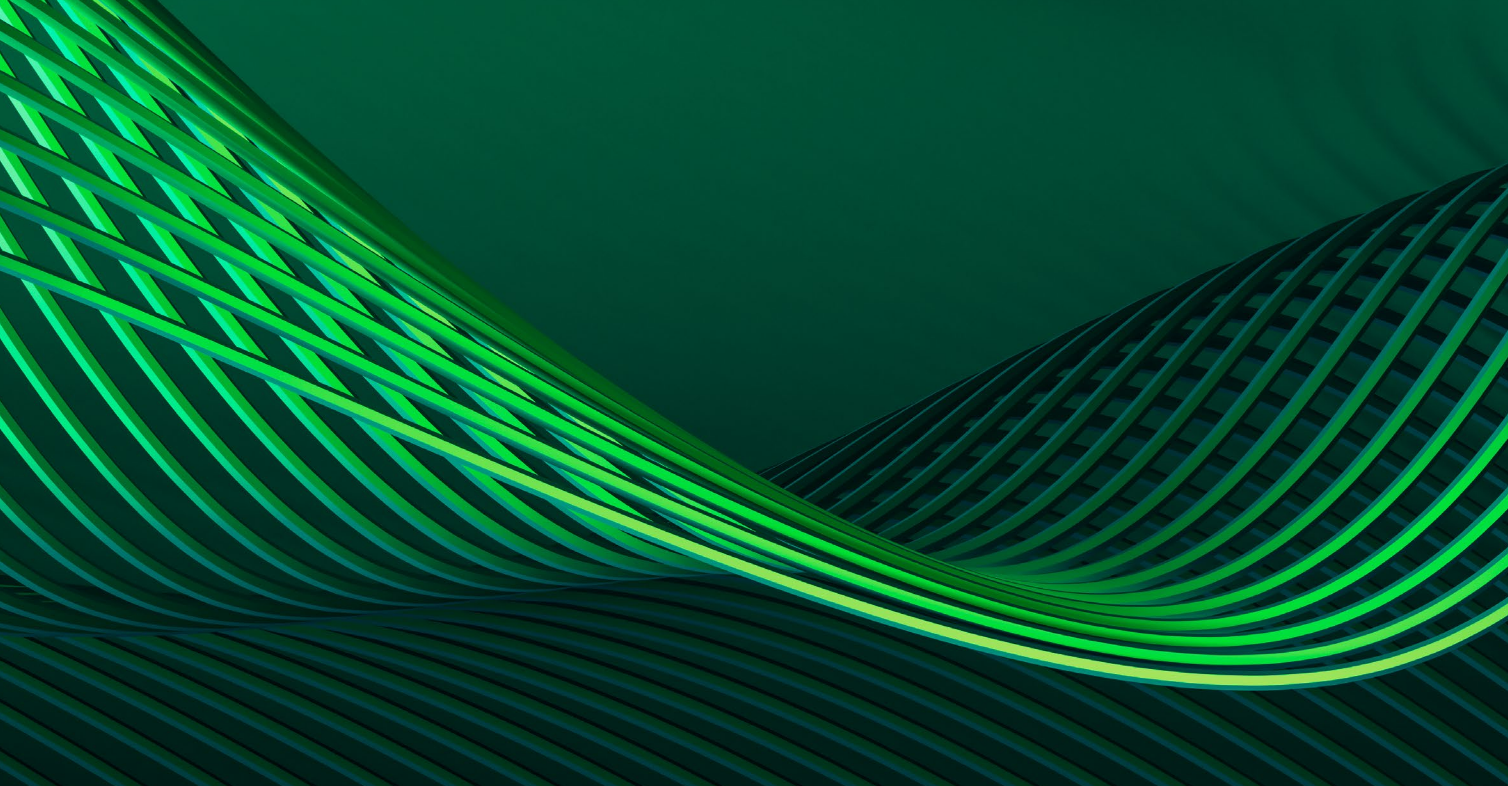
Practical implications - M&A transactions

This decision is particularly relevant in the context of M&A transactions involving infrastructure or energy assets, where the allocation and treatment of such pre-construction costs may affect the value of capital allowance pools and, consequently, the tax attributes being acquired and assumed to be available for modelling purposes. Purchasers conducting due tax diligence on target entities will need to scrutinise whether capital allowances pools include expenditure on such pre-construction surveys and studies and therefore whether such claims may now be vulnerable to challenge by HMRC in light of the Supreme Court's decision.

Practical implications - subsidy support in connection with costs incurred during the development phase of an offshore project?

The Supreme Court's decision will impact all major infrastructure projects which undertake pre-construction surveys and studies (e.g. pumped-storage hydro, onshore wind, nuclear and energy-from-waste projects). Offshore electricity projects (e.g. fixed and floating offshore windfarms, point-to-point subsea interconnectors, bootstraps/superhighways and offshore hybrid assets) will be particularly affected given the extensive (and costly) surveys and studies which are required for these projects as subsea cable routes become longer and longer.

Two of the most common types of pre-construction survey activities for offshore windfarms and subsea electricity interconnectors and cables are geophysical and geotechnical subsea surveys. By way of example, in the context of a fixed bottom offshore wind farm, the geotechnical studies will allow for the characterisation of the sub-seabed strata and support: (i) the design of the wind turbine generator and sub-station foundations; and (ii) the subsequent front-end engineering and design studies. For subsea point-to-point electricity interconnector projects (e.g. between the UK and continental European landfall points), hundreds of kilometres of the seabed will be surveyed.



These surveys often involve the use of smaller vessels for nearshore surveys through to dedicated large vessels for offshore surveys, and the costs associated with these surveys are considerable. The time at which the subsea surveys are undertaken (i.e. in advance of planning having been secured and well before the project is ready to build) means they represent one of the most "at-risk" major costs for projects.

The Supreme Court's decision will not negate the need to undertake these studies — it is impossible to develop a major offshore project without undertaking these surveys. What the decision does do, however, is focus a spotlight on the economic pressures that developers of major offshore projects are under, including the considerable sums required to be expended on surveys and studies prior to the taking of the final investment decision. These costs pressures are affecting project delivery for European and UK offshore wind projects and subsea electricity interconnector projects, as has been seen with: (i) Ofgem's decision to amend the Window 3 interconnector IPA Conditions; and (ii) the abandonment or suspension of a number of UK wind farms over the last 12 months.

As offshore projects become more complex (for example, offshore hybrid assets allowing offshore wind and interconnectors to work together as a "combined" project which allow clusters of offshore wind windfarms to connect to multiple countries), costs associated with pre-construction offshore surveys — alongside development expenditure straddling multiple jurisdictions — are likely to increase considerably.

Neither the Contracts for Difference scheme (which supports offshore wind projects in the UK by fixing a strike price to provide revenue stability) nor the Cap and Floor regime (which provides a regulated revenue framework for electricity interconnector (and soon long duration energy storage) projects in the UK by guaranteeing minimum revenues (floor)) provide point-in-time relief in respect of costs incurred during the development phase of a project. One alternative revenue approach which could provide significant cash flow relief for developers is the Regulated Asset Base ("**RAB**") model, which is a form of economic regulation typically used in Great Britain for monopoly infrastructure assets such as water, gas and electricity networks (and is now being used for largescale projects in the new nuclear and CCUS sectors). It is also used extensively across Europe as the revenue model for interconnectors. One of the attractive features of the RAB model in the context of offshore projects with extended development timelines is that it can be used to provide revenue during the development phase, which allows for capital recycling during the development phase. Ofgem's recent Call for Input on the "Future Strategic Approach to Interconnection" provides an insight into how a RAB scheme could operate to reduce the cost of capital during the development phase of a project, as further discussed in our recent update.

The Supreme Court's decision represents the final appellate route for this matter. It remains to be seen how developers, investors and other industry participants will price these additional pre-construction costs into their project economics going forward, and whether this will prompt further consideration of alternative support mechanisms or legislative change to account for this decision.

Key recent tax developments

LEGISLATION

Finance Act 2026

The Finance Act 2026 received Royal Assent on 18 March 2026 and enacts a number of the measures set out in the Chancellor's 2025 Autumn Budget, including the following:

- Introduction of inheritance tax on unused pension funds at death from April 2027;
- 100% agricultural property relief and business property relief from inheritance tax capped at £2.5m per estate, with 50% relief beyond cap, and ability to transfer unused portions of relief between spouses;
- Increase on dividend income tax rate to 10.75% for the basic rate and 35.75% for the higher rate from 6 April 2026 (the additional rate will remain unchanged at 39.35%);
- Increase on savings income tax rate to 22% for the basic rate, 42% for the higher rate and 47% for the additional rate from 6 April 2027;
- Introduction of separate tax rates for property income, set at 22% for the basic rate, 42% for the higher rate and 47% for the additional rate, from 6 April 2027;
- An extension of the freeze on income tax thresholds to April 2031;
- Introduction of new carried interest regime from 6 April 2026;
- Amendments to the transfer pricing rules, including introducing an exemption for transactions between UK tax resident companies, and the introduction of unassessed transfer pricing profits corporation tax charge to replace the diverted profits tax;
- Requirement for tax advisers to register with HMRC and uphold certain standards from May 2026;
- Strengthening HMRC's powers to investigate and sanction tax agents facilitating tax non-compliance by their clients;
- A reduction in the main rate of writing-down allowances from 18% to 14% for expenditure on plant and machinery from April 2026;
- Making employment agencies or end clients joint and severally liable for any amount required to be accounted for under the PAYE rules if an umbrella company forms part of a labour supply chain; and
- Introduction of a temporary exemption from SDRT for newly listed companies; and
- Introduction of a new anti-avoidance rule applicable to share-for-share exchanges.

FISCAL UPDATES

Spring Statement 2026

In a relatively uneventful Spring Statement, on 3 March 2026, the Chancellor announced no notable taxation changes. The Office for Budget Responsibility slightly amended its economic forecast for the upcoming year, including a downgrade in predicted growth from 1.4% (as announced in the 2025 Autumn Budget) to 1.1% in 2026, and an increase in the foreseen unemployment rate to 5.3%.

INTEREST RATES FOR LATE PAYMENT AND REPAYMENT

Interest rates for late payment and repayment

Following the decision of the Bank of England's Monetary Policy Committee on 18 December 2025 to decrease the Bank of England base rate from 4% to 3.75%, HMRC announced that its interest rate for late payment and repayment will decrease.

For most taxes and payments, late-payment interest rate is therefore 7.75% and the repayment rate is 2.75%, with effect from 9 January 2026. Interest charged on underpaid quarterly instalment payments of corporation tax is 6.25%, and interest paid on overpaid quarterly instalments is 3.50%, with effect from 29 December 2025.

CONSULTATIONS

Consultation on extension to the notification of uncertain tax treatment ("UTT") regime

HMRC has released a consultation on a significant expansion of the UTT regime. This forms part of the government's desire to close the "*legal interpretation*" tax gap, which forms 12% of the total tax gap according to HMRC's figures. The key proposals include:

- The addition of a third trigger for notification, being that there is more than one credible legal interpretation, and HMRC's view is not known;.
- The expansion of the taxes within scope of the UTT to include SDLT, national insurance contributions, the Construction Industry Scheme obligation to withhold, inheritance tax, and capital gains tax; and
- The extension of the taxpayers within scope of the UTT regime to include individuals and trusts.

These proposals would tend to significantly increase the number of required disclosures. The consultation closes on 4 June 2026.

Consultation on introducing reporting requirement for transactions between close companies and their participators

HMRC and HMT have jointly released a consultation on introducing new requirements to report transactions between close companies and their participators to HMRC. The intention to release a consultation on this topic was announced at the Autumn Budget 2025, and forms parts of efforts to close the small business tax gap in particular. However, the consultation does not suggest that the scope of the reporting obligation (if introduced) would be limited to the small company population only.

The types of transaction which are within the reporting plans include: (i) payments via cash, bank transfer or otherwise; (ii) transfers of assets to and from the company; (iii) dividends and other distributions; and (iv) any other transfer of value from company to participator. Loans to participators are a particular focus of the questions in the consultation. The only proposed exception from reporting would be for items already reported under the Real Time Information ("**RTI**") system (for payroll data) for employment income.

Corporate participators would be required to comply and the consultation document notes that this may be complicated where there are a significant number of inter-company transactions. The consultation closes on 10 June 2026.

Inward corporate re-domiciliation consultation

The Department for Business and Trade ("**DBT**") has released a detailed consultation on proposals for an inward corporate re-domiciliation regime in the UK. Such regime would enable a foreign-incorporated company to change its place of incorporation whilst retaining its legal identity. This follows the Independent Expert Panel on Corporate Re-domiciliation Report and an initial consultation in 2021.

The consultation confirms that, once legislation for the re-domiciliation framework has been finalised, the government will consider what changes to tax legislation might be required. One specific tax concern is raised. This is the potential for a double SDRT charge where an overseas company listed in the UK via a depositary interest structure re-domiciles and lists directly in the UK. The consultation sets out that the government's view is that no double charge should arise because companies could cancel their existing depositary receipts and then issue new shares directly listed in the UK, but the consultation invites discussion.

Key HMRC Guidance Updates

New guidance on HMRC action against tax advisers deliberately contributing to non-compliance

HMRC has published new guidance on action it proposes to take from 1 April 2026 against tax advisers who deliberately contribute to non-compliance which causes, or intends to cause, a tax loss (known as "**sanctionable conduct**"), under provisions included in the Finance Act 2026. Sanctionable conduct includes "*knowingly claiming a tax repayment for a client who is not entitled to it; or submitting an incorrect tax return on behalf of a client*". HMRC will initially send file access notices to those who are suspected of sanctionable conduct, which requires the recipient to provide relevant working papers and audit files, such as documents used to prepare client accounts. Financial penalties and 'naming and shaming' can result from findings of sanctionable conduct.

Construction Industry Scheme ("CIS") guidance – measures introduced to tackle fraud in the CIS

HMRC has added a new section to its Construction Industry Scheme Reform Manual to provide guidance on the Finance Act 2026 measures introduced to tackle fraud in the CIS. This sets out HMRC's view of the indicators that would suggest that the business "knew or should have known" about a relevant compliance failure, the level of due diligence and risk assessment that HMRC expects when entering trading relationships or contracts with other businesses, and the consequences of failing to take appropriate action based on the results of due diligence and risk assessments.

Overpayment relief claims

HMRC has highlighted common reasons that overpayment relief claims are rejected, following updates to its guidance. The main causes of invalid claims are failure to state clearly whether a prior appeal has been made and omissions or errors in the required declaration, which must be signed by the taxpayer or an authorised company officer rather than an agent. HMRC reiterates that claims must be made in writing and include specific prescribed information, including the tax year concerned, the reason for the overpayment and the amount claimed. Incomplete claims will be rejected and must be resubmitted, increasing delay and administrative burden for taxpayers and advisers, and risking limitation issues.

New and updated Guidelines for Compliance ("GfCs")

HMRC has published several new GfCs in response to requests for greater transparency and clarity in managing tax risk. They are intended to assist taxpayers with understanding HMRC's position on various tax issues, to highlight common errors that HMRC sees arising and to provide practical guidance on lowering tax risk. In HMRC's view, awareness and, where appropriate, implementation of relevant GfCs will lower the risk of contact and enquiries, and in turn reduce the risk of a taxpayer paying additional tax, interest and penalties.

HMRC's newly published GfCs are as follows:.

- **GfC 16 – Help with imported hybrid mismatches**:. These guidelines are intended to assist taxpayers in identifying imported hybrid mismatches, which can arise where payments (often tax deductible for UK tax purposes) are made to overseas entities of multinational groups and are linked to arrangements which create tax mismatches. The guidelines set out HMRC's view of best practices for analysing group arrangements and the risk of imported hybrid mismatches, what evidence should be retained, how to disclose counteractions, and appropriate steps if an error is discovered.
- **GfC 17 – Help with sharing group structure information**:. This sets out best practices for sharing group structure and transactions information with HMRC. The guidelines highlight when HMRC would like customers to share information about group structure and transactions, details the key information required, clarifies which shapes and symbols to use, and sets out how to deal with hybridity and complex group structures.
- **GfC 18 – Help with VAT place of supply of services in the oil and gas sector**:. These guidelines set out the specific place of supply rules most relevant to the oil and gas sector, general place of supply rules, fixed establishment rules and other factors which may impact VAT treatment of supplies related to this sector.

HMRC has also made significant updates to the following GfCs:

- **GfC 7 – Help with common risks in transfer pricing approaches**:. This has been expanded to include two new sections on value chain analysis and offshore procurement hubs. Value chain analysis is introduced as a "best practice tool" to support accurate delineation of transactions. The guidance on and offshore procurement hubs contains HMRC's understanding of the role, value generation, rewards, and types of costs, savings and functions performed in arrangements which involved UK businesses receiving procurement goods or services from offshore connected parties.
- **GfC 12 – Help with labour supply chain assurance**:. This has been updated to reflect new legislation from 6 April 2026. First, the introduction, of joint and several liability for PAYE tax losses relating to non-compliant umbrella companies. Second, HMRC's new powers to tackle fraud in the Construction Industry Scheme.

Compliance Activity and Policy

Public Accounts Committee ("PAC") inquiry into large business tax compliance

The PAC has launched an inquiry intended to scrutinise the processes surrounding large business tax compliance. This will involve taking evidence from senior HMRC officials.

The inquiry is intended to follow on from the National Audit Office's report examining whether HMRC's approach to taxing large businesses is delivering value for money. The report noted that HMRC collected an additional £16 billion from large businesses through increased penalties and data analysis, significantly improving tax compliance and reducing the tax gap.

The inquiry also refers to the PAC's 2016 report, which called on HMRC to:

- Lead the way in pressing for changes in international tax rules to prevent aggressive avoidance by multinational companies; and
- Consult widely on the case for changing rules that protect corporate taxpayer confidentiality and to make the tax affairs of multinational companies open to public scrutiny.

HMRC programme of large business cross-tax audit-led visits

HMRC is undertaking a programme of inquiries known as Project Snowball, initially focussing on three sectors: automotive, retail and financial services. This is an audit-led, cross-tax review for large businesses which involves a multi-day, in-person assessment across corporation tax, VAT, employer duties, and international trade, supported by pre-visit information requests. The intention is for HMRC to obtain information on businesses systems and process for managing tax, rather than assessing the accuracy of tax returns and positions. Taxpayer participation is understood to be voluntary, but may be taken into account in business risk review assessments.

Policy paper on new loan charge settlement opportunity

HMRC has published a policy paper explaining the key features of the new loan charge settlement opportunity, and how it intends to engage with taxpayers who are affected by the outcome of the loan charge review.

HMRC Reports and Statistics

Update on number of live corporate criminal offences

HMRC published its latest update on the number of live corporate criminal offences. As of 31 December 2025, HMRC had charged one taxpayer with alleged corporate failure to prevent facilitation of UK tax evasion, had 11 live investigations with a further 32 live opportunities under review. It had also reviewed and rejected an additional 126 opportunities in total at that date. The update notes that the investigations and charging opportunities spanned 10 different business sectors and sit across all HMRC customer groups, with the relevant sectors including software providers, waste services, accountancy and legal services and transport.

HMRC performance data 2025 to 2026: January and February

HMRC has published its January and February 2026 performance data for the 2025 to 2026 tax year, updating progress against its strategic objectives to close the tax gap and improve customer experience. These updates report that:

- HMRC brought in an extra £8.6 billion in tax in Q3 of 2025 to 2026, with the Q3 year-to-date compliance yield standing at £24.2 billion;
- HMRC's litigation performance remains strong, with a 97.9% success rate in concluded court and tribunal decisions in Q3 of 2025 to 2026, with the Q3 year-to-date success rate standing at 92.1%. It should be noted that many cases at first instance will include unrepresented taxpayers and non-material disputes. Our '"Tax under Scrutiny'" report analyses HMRC litigation statistics in more detail;
- Taxpayers have more success in challenging HMRC by way of pre-litigation reviews than before the courts:
  - Only 36.8% of reviews against automated penalties; and
  - 66.1% of reviews in relation to all other matters were upheld between Q1 and Q3 of 2025 to 2026;
- Customer (taxpayer) satisfaction in Q3 of 2025 to 2026 was 79.6%;
- HMRC is closing in on its targets for clearing correspondence:
  - Between April 2025 and January 2026, 78.9% of correspondence was cleared within 15 working days (against a target of 80%); and
  - Between April 2025 and January 2026, 88.6% of correspondence was cleared within 40 working days (against a target of 95%).

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 has launched several new nudge letter campaigns on various issues, as summarised below.

Research and development ("R&D") claims in the advertising sector (December 2025)

HMRC has launched a one-to-many campaign concerning R&D claims made by companies in the advertising sector. The campaign is intended to alert recipients of a rise in agents and third parties encouraging invalid claims in this sector. The letters note that R&D relief can only be claimed in respect of costs of activities that seek an advance in the fields of science or technology at large, as opposed to in respect of any scientific or technological developments that apply only to the relevant taxpayer and HMRC's view that it would be "*unusual for companies in [the advertising] sector to meet the R&D criteria. Most claims aren't eligible*". The letter sets out some common situations in which HMRC believes R&D relief is erroneously claimed, including where costs are incurred in the course of normal day-to-day work, the development of tools to collect customer data and analyse their behaviour, and the use of existing technology.

Inheritance tax on cryptoassets (December 2025)

HMRC's Wealthy Team has sent nudge letters to agents who have submitted or amended IHT400 returns on behalf of personal representatives ("**PRs**"). The letters contain a reminder that cryptoassets are included within the definition of property for inheritance tax purposes and therefore, where held, will form part of the deceased's estate. Recipient agents are asked to confirm with their clients, including PRs, where they hold any cryptoassets, to ensure these are reflected in the IHT400 (IHT Account) and, if appropriate, amend previous incorrect returns. If past errors are discovered after considering the information in the letters, it may still be possible to make unprompted disclosures.

Investors' Relief claims (December 2025)

HMRC's Wealthy Team has written to taxpayers who made Investors' Relief claims in their 2024 to 2025 tax returns. HMRC notes that Investors' Relief on capital gains is only available in respect of the disposal of ordinary shares in a company that the taxpayer has owned for three or more years, and that details the conditions to be met throughout the taxpayer's ownership of the relevant shares.

There are two versions of this nudge letter. The first asks recipients to check they met the qualifying conditions for the relief, whereas the second version asks recipients to amend their return to include a capital gains tax computation and sufficient information to ensure that HMRC can accept the claim for relief.

Individuals exceeding the £1 million lifetime Business Asset Disposal Relief ("BADR") limit (January 2026)

HMRC's Wealthy Team contacted taxpayers who made a BADR claim in their 2024 to 2025 tax return and either had already exceeded the £1 million lifetime limit prior to 2024 to 2025, or further to a claim in their 2024 to 2025 tax return were exceeding the £1 million lifetime limit by claiming BADR. The letter instructed such taxpayers to amend their 2024 to 2025 tax return to either reduce or remove their claim for BADR, as applicable, to bring them within the limit.

Pillar Two registration deadline (March 2026)

HMRC has written to groups which it believes may have missed the deadline to register for domestic top-up tax and multinational top-up tax using the Pillar Two online service. The letter contains a reminder that relevant groups must register no later than six months after the end of the first accounting period in which they are subject to Pillar Two rules, including in circumstances where a group has no top-up tax to pay. The letter sets out when registration is required and notes that penalties may be due if the registration deadline is missed. Businesses are asked to share the letter with their UK Senior Accounting Officer, Chief Financial Officer and anyone responsible for international accounting and tax matters. If, after reviewing the registration requirements, recipients still consider they are not in scope of Pillar Two, they are asked to respond to HMRC within 42 days of receiving the letter. The letter also contains details of how to register.

Individuals who included provisional figures in their 2024 to 2025 tax return (March 2026)

HMRC commenced two new nudge campaigns in relation to taxpayers who included provisional or rounded figures in their self-assessment tax returns for 2024 to 2025 and who have not yet submitted revised returns containing accurate figures. The letters sent in respect of provisional figures called on taxpayers to amend their tax returns if the final figures were different; for rounded figures, the letters acknowledged that using rounded figures may sometimes be necessary in order to file on time, but noted that this must be indicated in the relevant tax return, and asked taxpayers to amend their tax returns to reflect the accurate final figures.

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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