REINZA TRAINING

UK Self Assessment

Complete Tax Return Guide

A Comprehensive Training Manual for

Sole Traders, Freelancers & Landlords

Tax Year 2026/27

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UK Self Assessment: Complete Tax Return Guide

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Introduction

Welcome to This Course

Welcome to the Reinza Training UK Self Assessment Guide. This comprehensive manual has been designed to provide you with the core knowledge and practical skills you need to complete your Self Assessment tax return.

Whether you are a sole trader running your own business, a freelancer providing services to multiple clients, or a landlord receiving rental income from property, this guide will walk you through every step of the process from registration to final submission.

Who Is This Course For?

This course is designed for anyone who needs to complete a UK Self Assessment tax return, or who needs to work out whether they do, including:

- Sole traders and self-employed individuals running their own business
- Freelancers and contractors working for multiple clients
- Landlords receiving rental income from residential or commercial property
- Partners in business partnerships
- Company directors with income that is not taxed at source
- Those affected by the High Income Child Benefit Charge
- Anyone with untaxed income from investments, savings, or foreign sources

Section 1.2 sets out which of these situations require a tax return and which only require you to tell HMRC — the two are not the same, and a good deal of published guidance blurs them.

What You Will Learn

By the end of this course, you will be able to:

- Understand what Self Assessment is, and distinguish between telling HMRC about income and having to file a return
- Identify all sources of income that must be reported on your tax return
- Claim all allowable expenses to reduce your tax bill legally
- Calculate and claim capital allowances on business equipment and vehicles
- Complete the SA100 form and relevant supplementary pages accurately
- Understand Payments on Account and manage your cash flow effectively
- Work within the Making Tax Digital requirements now in force, and prepare for the thresholds still to come
- Keep proper records to satisfy HMRC requirements and avoid penalties

How to Use This Manual

This manual is structured into eight comprehensive modules, each building upon the previous one. We recommend working through the modules in order, as later concepts rely on understanding earlier material.

Throughout the manual, you will find the following features to help you learn:

> **Information Boxes**
>
> These blue boxes contain important information, tips, and HMRC guidance that you should pay particular attention to.

> **Warning Boxes**
>
> These yellow boxes highlight common mistakes, potential pitfalls, and areas where extra care is needed.

> **Example Boxes**
>
> These green boxes contain worked examples and practical illustrations to help you understand how concepts apply in real situations.

At the end of the manual, you will find appendices containing quick reference tables, checklists, and useful resources that you can refer to when completing your actual tax return.

Module 1: Introduction to Self Assessment

1.1 What Is Self Assessment?

Self Assessment is the system His Majesty's Revenue and Customs (HMRC) uses to collect Income Tax from individuals whose tax is not fully collected through the Pay As You Earn (PAYE) system. Under PAYE, your employer calculates and deducts tax from your wages before you receive them. However, if you have income that does not go through PAYE, you need to report it yourself through Self Assessment.

The term "Self Assessment" refers to the fact that you are responsible for calculating your own tax liability. You report your income and expenses to HMRC, and either you or the HMRC system calculates how much tax you owe. This is different from the PAYE system where your employer handles everything for you.

Self Assessment was introduced in the UK in 1996/97 and has since become the primary method for collecting tax from the self-employed, landlords, and others with complex tax affairs. Each year, millions of UK taxpayers complete a Self Assessment tax return, either online or on paper.

1.2 Who Needs to Tell HMRC, and Who Needs to File a Return?

These are two different questions, and running them together is one of the most common sources of confusion.

Not every source of untaxed income requires a Self Assessment return. In some cases you must tell HMRC about the income, but HMRC can then collect the tax another way — most often by adjusting your PAYE tax code — without you having to register and file. In other cases a return is required outright.

This section separates the two. Work out which category you fall into before assuming you need to register.

Situations Where a Return Is Normally Required

Self-employment. If you are a sole trader or run your own business as a self-employed individual, you must register for Self Assessment where your gross trading income exceeds £1,000 in a tax year. This £1,000 threshold is the Trading Allowance.

Even if your income is below £1,000, you may choose to register voluntarily — to claim business losses against other income, or to build up your National Insurance record.

Partnerships. If you are a partner in a business partnership, you must file a personal Self Assessment return reporting your share of the partnership profits. The partnership itself must also submit a separate Partnership Tax Return (SA800), but this does not remove your individual filing obligation.

A notice to file from HMRC. If HMRC issues you with a notice to file, a return is required regardless of your circumstances. See the box at the end of this section.

Situations Where You Must Tell HMRC, but May Not Need to File

In each of the following, exceeding the allowance means tax may be due. It does not automatically mean you must register for Self Assessment.

Property income. If your gross property income is £1,000 or less, the Property Allowance normally means there is no tax to pay and nothing to tell HMRC about. Above £1,000 you must declare the income. Whether that requires a return depends on the amount: between £1,000 and £2,500 you should contact

HMRC, who will tell you how to proceed. A return is normally required where property income exceeds £2,500 after allowable expenses, or £10,000 before expenses.

Property income includes rent from residential lettings, commercial property, and income from land.

If you let a room in your own home under the Rent a Room Scheme, you have a separate tax-free allowance of £7,500 per year (or £3,750 if sharing the income with a partner).

Dividend income. If you do not otherwise need to file a return, dividends within the £500 Dividend Allowance do not normally create a separate reporting requirement. Above the allowance, tax may be due — but where your total dividend income is £10,000 or less, HMRC may be able to collect it without a Self Assessment return, for example through your tax code. Dividend income over £10,000 normally requires a return.

Savings interest. Interest above your Personal Savings Allowance (£1,000 for basic rate taxpayers, £500 for higher rate, nil for additional rate) may create a tax liability, but that does not by itself mean you must file. Banks and building societies report interest to HMRC directly, and where you are employed or receive a pension HMRC can often collect the tax through your PAYE code. Where your income from savings and investments exceeds £10,000, you normally need to register for Self Assessment.

The High Income Child Benefit Charge. If you or your partner claim Child Benefit and either of you has adjusted net income over **£60,000**, the higher earner is liable to the charge. It increases as income rises and, at £80,000, is equivalent to the whole of the Child Benefit received. If you have no other reason to file, the charge can be collected through your PAYE tax code rather than through a return.

Capital gains. If your taxable gains exceed the Annual Exempt Amount (£3,000 for 2026/27), you must report them and pay any Capital Gains Tax due. That does not always mean registering for Self Assessment: for many non-property gains you may be able to use HMRC's Real Time Capital Gains Tax service instead. UK residential property gains have their own 60-day reporting regime — see section 2.5.

Foreign income. Foreign income taxable in the UK generally needs to be reported, but the route depends on the type and amount. Take advice if this applies to you.

Company Directors

Being a director does not by itself create a Self Assessment obligation. What matters is whether you have income that has not been taxed at source, and how much of it there is. A director whose only income is a PAYE salary from the company, with nothing else to report, may have nothing to do. A director taking substantial dividends will usually need to file. Assess your actual sources of income against the categories above rather than relying on your job title.

> **When in Doubt, Ask HMRC**
>
> HMRC publishes an online tool that works through your circumstances and tells you whether a return is needed. It takes a few minutes and is more reliable than working from a list. If you are told you do not need to file, keep a note of the date you checked.

> **Being Told to File Settles It**
>
> If HMRC sends you a notice to file, you must submit a return — even if you believe none of the categories above applies to you, and even if you owe no tax. If you think the notice was issued in error, contact HMRC and ask for it to be withdrawn. Do not simply ignore it: the penalty clock starts whether or not the return was necessary.

1.3 Key Dates and Deadlines

Understanding the Self Assessment calendar is crucial to avoiding penalties. The UK tax year runs from 6 April to 5 April the following year. Here are the key dates you need to know:

Date	Event / Deadline
5 April	End of the tax year — the final day of the tax year to which the return relates
6 April	Start of the new tax year — income and expenses from this date belong to next year's return
5 October	Registration deadline — new taxpayers must register for Self Assessment by this date
31 October	Paper return deadline — if filing on paper, your return must reach HMRC by midnight
31 January	Online return deadline and payment deadline — submit your online return and pay all tax owed, including the first Payment on Account
31 July	Second Payment on Account — pay the second instalment towards next year's tax bill

Penalty Alert — Which Regime Applies to You?

There are now two late filing penalty regimes running side by side, and which one applies depends on whether you are within Making Tax Digital for Income Tax.

Under the existing Self Assessment regime, missing the 31 January deadline triggers an automatic £100 penalty, even if you owe no tax or have already paid what you owe. Further penalties follow: from three months late, £10 for each additional day up to a maximum of £900; at six months and again at twelve months, a further 5% of the tax due or £300, whichever is greater.

Taxpayers within Making Tax Digital move to the new points-based late submission regime from the tax year in which they join MTD. For those required to use MTD from 2026/27, the new regime applies to the 2026/27 tax return — although HMRC will not apply penalty points to late quarterly updates during 2026/27. Section 8.7 sets out the position.

Interest is charged on tax paid late under either regime, at HMRC's prevailing rate.

1.4 How to Register for Self Assessment

If section 1.2 has established that you need to register, the process is done online through the HMRC website and differs slightly depending on your circumstances:

If You Are Self-Employed (Sole Trader)

If you are starting self-employment for the first time, use HMRC's online Self Assessment registration service, which will route you through the appropriate self-employment registration process. Registering this way covers both Self Assessment and Class 2 National Insurance.

To complete the registration, you will need your National Insurance number, your start date of self-employment, the nature of your business, and your business address.

> **Signing In to HMRC**
>
> HMRC accounts can be accessed through Government Gateway credentials or through GOV.UK One Login, and you may be asked to create sign-in details as part of the process. HMRC also updated its Self Assessment registration service in September 2026, so the screens you see may differ from older walkthroughs. Follow the service itself rather than a printed sequence of steps.

If You Are Not Self-Employed

If you need to register for Self Assessment but are not self-employed (for example, if you are a landlord, have capital gains to report, or have other untaxed income), you should register using form SA1 online.

If You Are a Partner in a Partnership

Partnerships have additional requirements. The partnership itself must be registered for Self Assessment using form SA400, and a nominated partner must be designated to submit the Partnership Tax Return. Each individual partner must also register separately using form SA401 and file their own personal Self Assessment return reporting their share of partnership profits.

1.5 Understanding Your UTR Number

After you register for Self Assessment, HMRC will send you a Unique Taxpayer Reference (UTR) number by post. This 10-digit number is your personal identifier for all Self Assessment matters.

> **Important: UTR Delivery Time**
>
> HMRC normally issues a UTR around 15 days after registration, and longer if you live overseas. If you registered online, it may become available sooner through the HMRC app or your Personal Tax Account. You cannot file your tax return without your UTR, so register well before any deadline.

Your UTR is different from your National Insurance number. While your NI number identifies you for National Insurance and benefits purposes, your UTR is specifically for tax. You will use your UTR when filing your annual tax return, making tax payments to HMRC, contacting HMRC about your tax affairs, and setting up an agent (accountant) to file on your behalf.

> **Keep Your UTR Safe**
>
> Your UTR is a permanent number — you will keep the same UTR for life, even if you stop being self-employed and later start again. Keep it in a safe place as you will need it every year.

Module 2: Understanding Your Income Sources

2.1 Overview of Taxable Income

Your Self Assessment tax return must include all income that is taxable for the relevant tax year, which runs from 6 April to 5 April. Different types of income are reported in different sections of the return, and some may require supplementary pages to be completed.

The point at which business income is recognised — when you are paid, or when you earn it — depends on which accounting basis you use. For self-employment, see section 3.1. Property businesses have their own cash-basis rules, explained in section 4.1. It is worth settling this before you start gathering figures.

It is essential that you report all your income, even if you think tax has already been paid on it. HMRC has extensive powers to check your return against information it receives from employers, banks, and other sources. Failing to report income, even unintentionally, can result in penalties and interest charges.

2.2 Self-Employment Income

If you are self-employed as a sole trader, you report your business income on supplementary page SA103. There are two versions of this form:

- **SA103S (Short)** — generally for businesses whose annual turnover is below the VAT registration threshold for the relevant tax year, and whose tax affairs are relatively straightforward
- **SA103F (Full)** — for larger businesses or those with more complex situations

> **Check the Threshold, Not a Remembered Figure**
>
> The SA103S turnover test is tied to the VAT registration threshold, which changes from time to time. Check the current figure rather than relying on a number you have seen in an older guide.

What to Report

Your self-employment income section must include:

- **Turnover** — your total business income before any expenses are deducted
- **Allowable expenses** — costs incurred wholly and exclusively for business purposes
- **Net profit** — the difference between turnover and allowable expenses
- **Capital allowances, where applicable** — for example, on qualifying assets under traditional accounting, or on certain business cars. Under the cash basis most equipment is simply an allowable expense instead; see sections 3.1 and 5.1

The Trading Allowance

The Trading Allowance provides £1,000 of tax-free trading income. If your total gross trading income (before expenses) is £1,000 or less, you do not need to register for Self Assessment or report this income.

If your gross income is slightly above £1,000, you have a choice: deduct your actual business expenses from your income, or deduct the £1,000 Trading Allowance instead of actual expenses.

> **Example: Trading Allowance Decision**
>
> Sarah earns £3,000 from freelance writing. Her actual expenses total £400. Option 1: £3,000 − £400 = £2,600 taxable profit. Option 2: £3,000 − £1,000 = £2,000 taxable profit. Sarah should choose the Trading Allowance as it gives a lower taxable profit.

2.3 Property Income

Rental income from UK property is reported on supplementary page SA105. This includes income from:

- Long-term residential lettings (assured shorthold tenancies)
- Short-term and holiday lettings
- Commercial property rentals
- Income from land (such as grazing rights)

> **Furnished Holiday Lettings: The Special Regime Has Gone**
>
> Until 5 April 2025, furnished holiday lettings had their own tax regime, with advantages over ordinary property income — including capital allowances on furniture and more generous treatment of finance costs. **That regime was abolished with effect from 6 April 2025 for Income Tax and Capital Gains Tax.** Holiday lettings are now taxed under the normal property income rules. If you are working from guidance written before 2025, or from a previous year's return, this is one of the most likely places to go wrong.

The Property Allowance

Similar to the Trading Allowance, the Property Allowance provides £1,000 of tax-free property income. If your gross property income (before expenses) is £1,000 or less, you do not need to report it.

Rent a Room Scheme

If you let out a furnished room in your own home, you may be eligible for the Rent a Room Scheme. This provides a tax-free allowance of £7,500 per year (or £3,750 if you share the income with a partner).

> **Note: Rent a Room Scope**
>
> The Rent a Room Scheme only applies to furnished accommodation in your main home. It does not apply to separate properties or unfurnished lettings.

2.4 Dividends and Savings Interest

Investment income from dividends and savings interest is reported on the main SA100 form. Understanding the allowances and tax rates is crucial for calculating your liability correctly.

Dividend Income

Dividends are payments made by companies to their shareholders from company profits. If you own shares in companies (including shares in your own limited company), any dividends you receive are taxable income.

Tax Band	Dividend Rate Name	2026/27 Rate
Basic Rate	Dividend Ordinary Rate	10.75%
Higher Rate	Dividend Upper Rate	35.75%
Additional Rate	Dividend Additional Rate	39.35%

For tax year 2026/27, the Dividend Allowance is £500. This means the first £500 of dividend income you receive is tax-free, regardless of which tax band you fall into.

> **Rates Changed in April 2026**
>
> The ordinary and upper dividend rates each rose by two percentage points from 6 April 2026 — from 8.75% to 10.75%, and from 33.75% to 35.75%. The additional rate is unchanged. A great deal of published material still shows the old rates, so check the tax year of any source before relying on it.

> **The Allowance Is a Nil Rate, Not an Exemption**
>
> Dividends covered by the £500 allowance still count as taxable income and still use up part of whichever band they fall in. Taking £500 of dividends does not create £500 of extra room in the basic rate band.

Savings Interest

Interest earned on savings accounts, current accounts, and other deposits is taxable. However, the Personal Savings Allowance (PSA) provides tax-free interest depending on your tax band:

Tax Band	Personal Savings Allowance
Basic Rate Taxpayer	£1,000
Higher Rate Taxpayer	£500
Additional Rate Taxpayer	£0 (no allowance)

> **Low Earners May Get a 0% Starting Rate as Well**
>
> The Personal Savings Allowance is not the only relief available on savings income. Depending on how much other income you have, up to £5,000 of savings income may fall within the **Starting Rate for Savings** and be taxed at 0% before the Personal Savings Allowance is applied. The starting rate reduces as other income rises and is generally unavailable once other income reaches £17,570. A saver on a low income may therefore use the Personal Allowance, the starting rate and the Personal Savings Allowance in combination.

2.5 Capital Gains

If you sell assets for more than you paid for them, you may have a capital gain that needs to be reported on supplementary page SA108. Capital gains tax applies to:

- Shares and investments (excluding ISAs and pensions)
- Property (other than your main residence)
- Personal possessions disposed of for more than £6,000, such as art, jewellery and antiques
- Business assets
- Cryptocurrency

> **Personal Possessions: It Is the Sale Price That Counts**
>
> The £6,000 test looks at what you sold the item for, not what it is worth or what you paid — and a disposal for exactly £6,000 remains within the exemption. Special rules apply to these items, known as chattels: where the disposal proceeds exceed £6,000 but do not exceed £15,000, a marginal relief calculation limits the chargeable gain. Above £15,000 the ordinary rules apply.

Annual Exempt Amount

For tax year 2026/27, the Annual Exempt Amount (AEA) for capital gains is £3,000. This means you can make gains of up to £3,000 in a tax year before any capital gains tax is due.

> **A Reporting Test That Is Not About Tax**
>
> If you are already completing a Self Assessment return, you may need to complete the capital gains pages even where your gains are below the Annual Exempt Amount and no tax is due. The test looks at the total disposal proceeds of chargeable assets: where those exceed £50,000 in the tax year, the pages are generally required. Selling a large holding at little or no gain can trigger this.

Capital Gains Tax Rates

Asset Type	Basic Rate	Higher Rate
Residential Property	18%	24%
Other Assets (shares, etc.)	18%	24%

> **Property Gains — 60 Day Reporting**
>
> If you are UK resident and dispose of UK residential property on which Capital Gains Tax is due — a buy-to-let, for example — you normally have to report and pay that tax within 60 days of completion. Note what triggers it: the requirement arises where tax is actually due, so a disposal covered by the Annual Exempt Amount will not usually need a 60-day return. This is separate from your annual Self Assessment return, on which the gain must still be reported.

> Different rules apply if you are not UK resident. A non-resident generally has to report disposals of UK land and property even where no tax is due.

Module 3: Allowable Expenses for Sole Traders

3.1 First, Which Accounting Basis Are You Using?

Before working out which expenses you can claim, you need to know which of two accounting methods your business uses. The choice affects *when* income and expenses are counted, how equipment is relieved, and what you can do with a loss. Most guidance written before 2024 assumes the traditional method, so this is a common source of confusion.

The Two Methods

Cash basis. You record income when the money actually reaches you and expenses when you actually pay them. An invoice you issued in March but were not paid for until May belongs to the later tax year. This is the simpler method, and it keeps your tax bill aligned with the cash you have actually received.

Traditional accounting (accruals basis). You record income when it is earned and expenses when they are incurred, regardless of when the money moves. In practice the invoice date is usually the marker for income, but the underlying test is when the income was earned. That March invoice belongs to the earlier tax year even if it was paid months later.

The Cash Basis Is Now the Default

This is the point most often missed. **Since the 2024/25 tax year, the cash basis is the default method for eligible self-employed businesses.** You do not opt in — you are in it unless you actively choose traditional accounting instead, which you do by ticking the relevant box on your tax return.

If you have been using traditional accounting for years and have not thought about it since, check which basis your last return was filed on.

What the Choice Changes

	Cash basis	Traditional accounting
Income counted when	Received	Earned or accrued (often, but not always, when invoiced)
Expenses counted when	Paid	Incurred
Equipment and machinery	Usually deducted as an ordinary expense when paid	Relieved through capital allowances
Cars	Capital allowances (or simplified mileage)	Capital allowances (or simplified mileage)
Unpaid invoices	Not taxed until paid	Taxed when invoiced
Loss relief	Subject to the normal trading loss relief rules	Subject to the normal trading loss relief rules

This Is Why Module 5 Might Not Apply to You

The most practical consequence is how you get relief for equipment. Under the cash basis, a laptop you buy for the business is usually just an allowable expense in the year you pay for it — you do not need

> capital allowances at all. Cars are the main exception. Module 5 explains the capital allowances system, but read section 5.1 first to see how much of it applies to your situation.

Which Should You Use?

Neither is universally better. The cash basis suits most small service businesses: it is simpler, and you are not taxed on money you have not yet received. Traditional accounting may suit a business that wants its accounts to match income earned with expenses incurred in the same period — particularly where there are significant receivables, payables, stock, or other year-end adjustments.

> **An Old Restriction That No Longer Applies**
>
> Before April 2024, losses made under the cash basis could generally only be carried forward against future profits of the same trade. **That restriction was removed when the cash basis was expanded from 6 April 2024.** Losses now follow the ordinary trading loss relief rules whichever basis you use. Guidance written before 2024 — of which there is a great deal — still describes the old position.

> **Get Advice Before Switching**
>
> Changing basis has transitional consequences — income or expenses can fall into both years or neither if the switch is handled carelessly. If you are thinking of moving from one to the other, take advice on the specific figures first.

The rest of this module describes which costs are allowable. That question — *is this expense for the business?* — is the same under both methods. What differs is the timing, and the treatment of equipment.

3.2 The "Wholly and Exclusively" Rule

The fundamental principle for claiming business expenses is that they must be incurred "wholly and exclusively" for the purposes of your trade, profession, or vocation. This is a legal test established by tax legislation and interpreted through case law.

In practical terms, this means:

- The expense must be genuinely for business purposes, not personal benefit
- If an expense has both business and personal elements, only the business portion can be claimed
- You should be able to demonstrate that the expense was incurred wholly and exclusively for business purposes

> **The Test Is Purpose, Not Necessity**
>
> The statutory test asks what the expenditure was *for*, not whether it was strictly necessary. An expense does not have to be unavoidable to be allowable. Equally, an expense that turns out to benefit the business is not allowable if its purpose was personal. Keep a record of why each expense was incurred for the business.

3.3 Office and Premises Costs

If you operate from business premises (not your home), you can claim the full cost of:

- Rent and business rates
- Utilities (electricity, gas, water) for business premises
- Business insurance premiums
- Security costs
- Cleaning and maintenance
- Office supplies and stationery
- Postage and courier costs

3.4 Working from Home

Many sole traders work from home, either fully or partially. You can claim a proportion of your household costs as a business expense, but the method you choose will affect how much you can claim and the records you need to keep.

> **A Note on Which Rules Apply to You**
>
> The rules in this section are the **self-employed** rules. If you run your business through a limited company, you are a director and employee of that company, not a sole trader, and a completely different set of rules applies. Do not apply the apportionment method below to a company.

Method 1: Simplified Expenses (Flat Rate)

The simplified expenses method uses a flat rate based on the number of hours you work from home each month. This is the easiest method as it requires minimal record-keeping.

Hours Worked from Home per Month	Flat Rate per Month
25 to 50 hours	£10
51 to 100 hours	£18
101 hours or more	£26

> **The Flat Rate Does Not Cover Everything**
>
> The simplified expenses flat rate covers household running costs such as heating and lighting. It does **not** cover telephone or internet costs — you can claim the business proportion of those separately, in addition to the flat rate.

> **Example: Simplified Expenses**

> James works from home for his freelance web design business. He works approximately 40 hours per week from home. That is 160+ hours per month, so he can claim £26 per month = £312 per year using simplified expenses, plus the business proportion of his phone and broadband.

Method 2: Actual Costs

Alternatively, you can calculate the actual business proportion of your household costs. This method can result in a higher deduction but requires more detailed records.

Costs you can include in your calculation:

- Mortgage interest (not capital repayments) or rent
- Council tax
- Gas and electricity
- Water rates
- Broadband and telephone (business use portion)
- Home insurance
- General repairs and maintenance

> **Capital Gains Tax Warning**
>
> Exclusive business use of part of your home can restrict Private Residence Relief on that part when you come to sell, producing a capital gains tax liability that would not otherwise arise. Mixed private and business use may change the analysis. Where a substantial part of the home is dedicated to the business, obtain advice on the specific facts rather than relying on a general rule of thumb.

3.5 Travel and Vehicle Costs

Travel expenses are one of the most commonly claimed and commonly challenged areas of business expenses. Understanding what qualifies as business travel is essential.

What Qualifies as Business Travel

Travel is allowable where it is undertaken wholly and exclusively for the purposes of the business. Typical examples include:

- Journeys to visit clients or customers
- Journeys to suppliers, or to buy stock
- Attending business meetings, conferences, or training
- Travel between different business premises
- Journeys to other business sites, where the journey itself is undertaken for the purposes of the trade

Ordinary travel between your home and a permanent business base is generally not allowable, in the same way that commuting is not allowable for an employee.

Claiming Vehicle Costs

If you use your own vehicle for business, you can claim the costs using one of two methods:

Method 1: Simplified Mileage Rates

HMRC allows self-employed businesses to use simplified mileage rates instead of claiming the actual running costs of qualifying vehicles. These rates cover all vehicle running costs including fuel, insurance, servicing, and depreciation.

Vehicle Type	First 10,000 miles	Over 10,000 miles
Cars and goods vehicles	55p per mile	25p per mile
Motorcycles	24p per mile	24p per mile

The Car Rate Changed in April 2026

The simplified mileage rate for cars and goods vehicles rose from 45p to 55p for the first 10,000 business miles with effect from 6 April 2026 — the first change since 2011/12. The rate above 10,000 miles is unchanged at 25p. Most mileage claim templates and online guides still show 45p, so check before you use one.

Keep a Mileage Log

The mileage claim rests entirely on your records. For every business journey, record the date, the route, the purpose and the distance. This is the single record most often missing when HMRC asks for it, and without it the claim is difficult to defend.

Important: You Cannot Switch Back

Once you start using the mileage rate method for a vehicle, you cannot switch to actual costs for that same vehicle. You would need to dispose of the vehicle and acquire a new one to change methods. Choose carefully.

3.6 Professional and Financial Costs

You can claim the following professional expenses:

- Accountancy and bookkeeping fees relating to the business
- Tax advice relating to the business
- Legal fees for business contracts (not capital purchases)
- Professional body membership fees and subscriptions
- Professional indemnity insurance

- Trade publication subscriptions
- Bank charges on business accounts
- Interest on business loans and overdrafts
- Bad debt write-offs — **traditional accounting only** (see below)

> **Bad Debts and the Cash Basis**
>
> A bad debt deduction is only available under traditional accounting, where the amount was included in turnover when you invoiced it and has since proved irrecoverable. **Under the cash basis there is nothing to write off** — you never counted the income in the first place, because you were never paid. This catches people out when they switch basis or read guidance written for the other one.

> **Your Own Tax Return Is Not a Business Expense**
>
> This catches people out. Accountancy fees for preparing your **business** accounts are allowable. The cost of preparing and submitting your **personal Self Assessment tax return** is not — it is a personal expense, because the return is your obligation as an individual rather than a cost of the trade. If your accountant charges a single fee covering both, ask for it to be split so that the business element can be identified.

3.7 Expenses That Are Not Normally Deductible as Ordinary Business Expenses

The following are not allowable as ordinary business expenses, even where they seem business-related:

Non-Allowable Expense	Reason
Personal expenses	Fails the "wholly and exclusively" test
Client, supplier and customer entertainment, and event hospitality	Specifically disallowed by tax law. Genuine staff entertaining is treated differently, and there are narrow exceptions where providing hospitality is itself the trade
Fines and penalties	Public policy — cannot subsidise law-breaking
Ordinary clothing	Everyday clothes have dual purpose
Preparing your personal tax return	A personal obligation, not a cost of the trade
Capital expenditure	Treatment depends on your accounting basis and the type of asset — see Module 5
Drawings (money you take from the business)	Personal income, not a business expense

> **Training Costs: The Old Rule No Longer Applies**
>
> Earlier guidance, and a great deal of material still online, states that training which gives you a *new* skill is capital and therefore not deductible, while training that merely updates existing skills is allowable. **That**

> **is no longer HMRC's position.** Since HMRC rewrote its guidance in early 2024, a self-employed person may deduct training that either updates existing expertise **or provides new expertise or knowledge**, provided it relates to the trade already being carried on — including keeping pace with technological change and changes in industry practice. What remains non-deductible is training undertaken to start an entirely new trade.

Module 4: Allowable Expenses for Landlords

4.1 Property Business Expenses Overview

Landlords can deduct expenses that are incurred wholly and exclusively for the purposes of their rental business. The rules for property expenses are similar to self-employment expenses but have some important differences, particularly around finance costs.

All your UK rental properties are treated as a single business for tax purposes. This means you can offset a loss on one property against profit on another.

Which Accounting Basis Does a Property Business Use?

Landlords have their own cash basis, and it is **not the same set of rules** as the trading cash basis described in section 3.1.

For most property businesses run by individuals or partnerships, **the cash basis has been the default since 2017/18** where annual property receipts do not exceed £150,000. Rent is recognised when it is received and expenses when they are paid. Above £150,000, and for certain other entities, accruals accounting is required. Eligible landlords may elect out of the cash basis and use accruals accounting instead.

Which basis you are on affects when rent counts as income, which year an expense falls into, how unpaid rent and unpaid bills are treated, and the treatment of some capital expenditure. Establish this before working through the expenses below.

4.2 Fully Deductible Property Expenses

The following costs can be claimed in full as property expenses:

Management and Professional Fees

- Letting agent fees for property management
- Tenant-finding fees and advertising for tenants
- Accountancy fees for rental accounts
- Legal fees for renewing leases (up to 50 years), evicting tenants, or resolving tenant disputes
- Inventory clerk fees

Property Running Costs

- Buildings insurance
- Contents insurance (for furnished lettings)
- Landlord liability insurance
- Ground rent (for leasehold properties)
- Service charges (for flats and apartments)
- Council tax during void periods (when the property is empty)
- Utilities if paid by the landlord (normally only during voids)

4.3 Repairs vs Improvements — The Critical Distinction

One of the most important concepts in property taxation is the difference between repairs and improvements. Getting this wrong is one of the most common errors landlords make.

Repairs (Allowable as Revenue Expense)

A repair restores an asset to its original condition without improving it. Repairs are fully deductible as an expense in the year they are incurred. Examples include:

- Fixing a broken boiler
- Replacing broken windows with equivalent windows
- Repainting walls and ceilings
- Fixing roof tiles
- Replacing damaged guttering with an equivalent replacement

Improvements (Not Deductible — Capital Expenditure)

An improvement enhances the property beyond its original condition or adds something new. Improvements are capital expenditure and cannot be deducted as a revenue expense. Examples include:

- Building an extension
- Adding a new bathroom or en-suite
- Converting a loft into living space
- Installing insulation where none previously existed
- Installing central heating where none existed

The "Modern Equivalent" Rule

When replacing something, you can claim a repair even if the replacement is of better quality due to technological advancement. Replacing an old standard boiler with a modern condensing boiler is still a repair, because the condensing boiler is now the modern equivalent — you cannot buy like-for-like.

Double glazing is the classic example. Replacing old single-glazed windows with modern double-glazed equivalents was once treated as an improvement. It no longer is: double glazing has become the industry standard, so the replacement is normally an allowable repair, provided it does not fundamentally change the character of the property. If you are working from older guidance that lists double glazing as a capital improvement, that guidance is out of date.

4.4 Replacement of Domestic Items Relief

For residential lettings where domestic items are provided, you can claim relief when you replace furniture, furnishings, or household appliances. This is called the Replacement of Domestic Items Relief.

Items covered include:

- Moveable furniture (beds, sofas, tables, chairs, wardrobes)
- White goods (fridge, freezer, washing machine, dishwasher, cooker)
- Carpets, curtains, and blinds

- Kitchenware and crockery

> **Carpets, Curtains and White Goods Are Not Repairs**
>
> Replacing a worn carpet in a let property is a natural thing to think of as a repair, but carpets, rugs, curtains, furniture and appliances are **domestic items**. Replacing them goes through the Replacement of Domestic Items Relief described in this section, not through the ordinary repairs deduction.

> **Important: Replacement Only**
>
> You can only claim this relief for replacing an item, not for the initial furnishing of a property. If you buy a property unfurnished and then furnish it, those initial costs are not deductible.

> **This Now Matters to Holiday Lets Too**
>
> Furnished holiday lettings previously claimed capital allowances on furniture instead of this relief. Since the abolition of the furnished holiday lettings regime in April 2025, holiday lets fall under the ordinary property rules, so the Replacement of Domestic Items Relief is now the relevant route.

4.5 Residential Property Finance Cost Restriction

One of the most significant changes to property taxation in recent years is the restriction on finance cost relief for individual landlords of **residential** property. This change was phased in between April 2017 and April 2020 and is now fully in effect.

> **Residential Property Only**
>
> This restriction applies to finance costs on residential lettings. Finance costs on commercial property are not restricted in the same way and remain deductible in the ordinary manner. If your portfolio contains both, the two are treated differently.

How the Restriction Works

Individual landlords (including partnerships of individuals) can no longer deduct residential property finance costs as an expense from their rental income. Instead, they receive a basic rate tax reduction.

The tax reduction is 20% of **the lowest** of three figures:

- the finance costs for the year, plus any finance costs brought forward and not yet relieved
- the profits of the property business for the year
- the individual's adjusted total income above the Personal Allowance

Where finance costs exceed the amount that can be relieved in a year, the unrelieved part can generally be carried forward.

It Is Not Simply 20% of the Interest

The three-way comparison matters. A landlord whose property profits are low, or whose total income sits close to the Personal Allowance, may find that the relief is capped well below 20% of the interest actually paid — with the balance carried forward rather than lost. The example below is straightforward because the finance cost happens to be the lowest of the three figures; that will not always be the case.

Example: Mortgage Interest Restriction

David has rental income of £15,000 and allowable expenses (excluding mortgage interest) of £3,000. His mortgage interest is £6,000. Under current rules: taxable profit = £15,000 − £3,000 = £12,000, with a 20% tax reduction on £6,000 = £1,200 credit. If David is a 40% taxpayer, he pays £4,800 tax on the rental profit (£12,000 × 40%) minus the £1,200 credit = £3,600.

Note for Limited Companies

The mortgage interest restriction does not apply to properties owned by limited companies. Companies can still deduct mortgage interest as a business expense in full.

Module 5: Capital Allowances

> **Read This First: Much of This Module May Not Apply to You**
>
> If your business uses the **cash basis** — which, since 2024/25, is the default for most eligible self-employed businesses (section 3.1) — you will usually deduct the cost of equipment as an ordinary business expense when you pay for it, and capital allowances will not come into it. **Cars are the main exception.**
>
> Work through section 5.1 to establish which parts of this module are relevant to you before reading the rest.

5.1 What Are Capital Allowances, and Do They Apply to You?

Capital allowances are a form of tax relief for capital expenditure — money spent on assets the business keeps and uses, rather than on day-to-day running costs. They are sometimes described as the tax equivalent of depreciation, though the two are calculated quite differently.

Whether you use them at all depends on your accounting basis.

If You Use the Cash Basis

Under the cash basis, the cost of most equipment is simply **an allowable business expense in the year you pay for it**. A computer, a set of tools, a van, a piece of machinery — you deduct what you paid, in the period you paid it. There is no pool, no writing down allowance, and no annual investment allowance to claim.

Cars are treated differently. For a car used in the business you have two routes, and you choose one for the life of that vehicle:

- **Simplified mileage rates** (section 3.5) — you claim a set amount per business mile and make no separate claim for the vehicle itself, or
- **Capital allowances** — you claim relief on the cost of the car under the rules in sections 5.3 and 5.5, restricted to the business use proportion

You cannot do both for the same vehicle.

So if you are on the cash basis and do not have a business car, or you use simplified mileage for the car you have, capital allowances will not feature in your return at all.

If You Use Traditional Accounting

Under traditional accounting, capital expenditure cannot be deducted as an ordinary business expense. Relief comes through capital allowances instead, which is what the rest of this module describes.

Capital allowances apply to:

- Plant and machinery — equipment used in your business
- Vehicles used for business purposes
- Integral features of business premises (electrical systems, heating, air conditioning)
- Fixtures in buildings

A Claim Is a Choice

Where capital allowances do apply, they are not automatic. You can claim in full, in part, or not at all. Claiming less in a year when your profits are below the Personal Allowance leaves more expenditure in the pool for future years, when the relief may be worth more.

A Note on Sources

A great deal of published material describes capital allowances as though every self-employed business uses them. That was closer to the truth before the cash basis became the default in 2024/25. When you read an article or a template about the Annual Investment Allowance, check whether it assumes traditional accounting.

5.2 Annual Investment Allowance (AIA)

The Annual Investment Allowance is the most generous capital allowance available. It allows you to deduct the full cost of qualifying plant and machinery in the year of purchase, up to the AIA limit.

Current AIA Limit

The AIA limit is £1,000,000 per year. This limit is permanent and applies to most businesses regardless of size.

What Qualifies for AIA

Most plant and machinery qualifies for AIA, including:

- Computers, laptops, and IT equipment
- Office furniture (desks, chairs, filing cabinets)
- Machinery and tools
- Vans and commercial vehicles
- Business equipment and appliances

Cars Do NOT Qualify for AIA

Cars are specifically excluded from the Annual Investment Allowance. Different rules apply to cars based on their CO_2 emissions — see section 5.5.

Example: Using AIA

Emma is a self-employed photographer using traditional accounting. She buys a new camera for £3,000 and a computer for £1,500. Both items qualify for AIA, so Emma can deduct the full £4,500 from her profits in the year of purchase.

5.3 Writing Down Allowances (WDA)

For expenditure that exceeds your AIA limit, or for items that don't qualify for AIA (like cars), you claim Writing Down Allowances instead. WDA allows you to deduct a percentage of the reducing balance each year.

Pool Type	WDA Rate	Includes
Main Rate Pool	14%	Most plant and machinery, cars 1–50g/km CO2
Special Rate Pool	6%	Integral features, long-life assets, cars over 50g/km CO2

The Main Pool Rate Fell in April 2026

The main rate pool writing down allowance fell from 18% to 14%. For Income Tax purposes — which is what applies to a sole trader — the change takes effect from **6 April 2026**. (For companies paying Corporation Tax the date is 1 April 2026; if you are reading guidance written for companies, check which date applies to you.) Where your accounting period spans the change, a hybrid rate between 18% and 14% applies for that period.

5.4 The 40% First Year Allowance (New from January 2026)

A new 40% first year allowance became available for expenditure incurred on or after **1 January 2026** on new and unused main-rate plant and machinery. Cars do not qualify.

Two points make it relevant to a sole trader:

- It is **available to Income Tax payers as well as companies**. Full expensing, by contrast, is available to companies only.
- With the main pool writing down allowance now at 14%, a 40% first year allowance gives materially faster relief where it applies.

For most sole traders the Annual Investment Allowance will still absorb the whole of a year's equipment spending, because the £1,000,000 limit is far above what a typical small business buys. The 40% allowance may be relevant where the AIA has been fully used, or where a business chooses to claim the 40% first year allowance instead of another available allowance.

5.5 Capital Allowances on Cars

Cars have special rules for capital allowances. They do not qualify for the Annual Investment Allowance, and the rate of writing down allowance depends on the car's CO2 emissions.

CO2 Emissions	Allowance Type	Rate
0g/km (Electric)	First Year Allowance	100%
1–50g/km (Low emission)	Main Rate Pool	14% WDA

CO2 Emissions	Allowance Type	Rate
Over 50g/km	Special Rate Pool	6% WDA

The Zero-Emission Car Allowance Has an End Date

The 100% first year allowance for qualifying new zero-emission cars is available for expenditure incurred up to **5 April 2027** for Income Tax purposes. (For companies the equivalent date is 31 March 2027.) After that date, zero-emission cars fall into the ordinary pooling rules unless the allowance is extended again.

Business Use Proportion

You can only claim capital allowances on the business use proportion of a car. If you use your car 70% for business and 30% personally, you can only claim 70% of the allowances.

Example: Electric Car Allowances

Tom is a self-employed consultant. He buys a new electric car for £40,000 and uses it 80% for business. As the car has 0g/km emissions, it qualifies for the 100% First Year Allowance. Business use proportion: £40,000 × 80% = £32,000. Tom can deduct £32,000 from his profits in the year of purchase.

Module 6: Completing the SA100 Form

6.1 Overview of the SA100

The SA100 is the main Self Assessment tax return form. It collects your personal information, summarises your income from all sources, and calculates your overall tax position. Most people complete the return online using HMRC's website or commercial software.

The main SA100 form captures:

- Your personal details and tax reference numbers
- Employment income (from P60s)
- Interest and dividend income
- UK pension income
- Other income not reported elsewhere
- Tax reliefs and deductions you are claiming
- Student loan repayment information

6.2 Supplementary Pages

Depending on your circumstances, you may need to complete one or more supplementary pages in addition to the main SA100:

Form	Use For
SA102	Employment income — salary, benefits, and expenses from each employer
SA103S/F	Self-employment income — Short where turnover is below the VAT registration threshold, Full for larger or more complex businesses
SA104S/F	Partnership income — your share of partnership profits
SA105	UK property income — rental income from UK property
SA106	Foreign income — income from overseas sources
SA108	Capital gains — gains from selling assets like shares or property

6.3 Filing Online vs Paper

The vast majority of Self Assessment returns are now filed online. Here is a comparison of the two methods:

Aspect	Online	Paper
Deadline	31 January	31 October
Tax Calculation	Automatic	HMRC calculates

Aspect	Online	Paper
Confirmation	Instant acknowledgement	Wait for processing
Amendments	Easy to amend online	Submit new paper form

Top Tip: Keep Records

Always keep copies of your submitted return and all supporting documents for the period HMRC requires. For self-employment records, that is normally at least five years after the 31 January submission deadline for the relevant tax year — so records for 2026/27, whose deadline is 31 January 2028, are normally kept until 31 January 2033.

HMRC has separate statutory time limits for opening a formal enquiry into a return and for making a later discovery assessment. Discovery assessment periods can extend well beyond the ordinary enquiry window, particularly where an error was careless or deliberate — which is a further reason to keep records for the full retention period rather than the minimum you think you can get away with.

Module 7: Payments on Account Explained

7.1 What Are Payments on Account?

Payments on Account are advance payments towards your next tax bill. If your Self Assessment tax bill is over £1,000, HMRC will usually require you to make two advance payments during the year, based on your previous year's tax liability.

7.2 How They Work

Each Payment on Account is normally 50% of the previous year's **relevant** Income Tax and Class 4 National Insurance liability. These payments are made on:

- **31 January** — first Payment on Account, along with any balance due from the previous year
- **31 July** — second Payment on Account

Example: Payments on Account

Your 2025/26 tax bill is £5,000. On 31 January 2027: pay £5,000 (the 2025/26 balance) plus £2,500 (the first Payment on Account for 2026/27). On 31 July 2027: pay £2,500 (the second Payment on Account). On 31 January 2028: any balance owed for 2026/27, plus new Payments on Account for 2027/28.

Not Everything Counts Towards the Calculation

"Relevant liability" is narrower than your total tax bill. Certain amounts are excluded from the Payments on Account calculation, including Capital Gains Tax, tax already deducted at source, student and postgraduate loan repayments, and Class 2 National Insurance. A year with a large capital gain will therefore not produce correspondingly large Payments on Account for the following year.

The First Year Is the Shock

In your first year of Self Assessment, the January payment covers a full year in arrears plus half a year in advance — so the demand can be one and a half times the liability you were expecting, where the whole of the relevant liability is subject to Payments on Account. The liability has not increased; the system is catching up. Budget for it from the previous April.

7.3 When Payments on Account Apply

You must make Payments on Account if:

- Your Self Assessment tax bill was more than £1,000, **and**
- Less than 80% of your total tax due was collected at source (for example, through PAYE)

7.4 Reducing Payments on Account

If you expect your income to be lower this year, you can apply to reduce your Payments on Account. This can be done through your online HMRC account.

> **Caution**
>
> If you reduce your payments and your actual tax bill is higher than expected, you will pay interest on the underpayment. Only reduce if you are confident your income will be lower.

7.5 Payment Methods

You can pay your Self Assessment tax bill using several methods:

- **Direct Debit** — set up through HMRC online (can spread payments)
- **Bank transfer** — using your UTR as reference (allow 3 working days)
- **Debit card online** — through the HMRC website
- **At your bank** — with a paying-in slip from HMRC

> **Budget Payment Plan**
>
> You can set up a Budget Payment Plan to spread your tax payments throughout the year via weekly or monthly Direct Debit, helping with cash flow management.

Module 8: Making Tax Digital & Record Keeping

8.1 Making Tax Digital for Income Tax (MTD ITSA)

Making Tax Digital is HMRC's programme to move tax record-keeping and reporting onto software. Instead of keeping records in whatever form you like and typing figures into an online form, you keep digital records in compatible software and file directly from that software.

MTD for Income Tax is now in force. Since April 2026, self-employed individuals and landlords with qualifying income over £50,000 have been required to keep digital records and submit quarterly updates to HMRC. Lower thresholds follow in 2027 and 2028.

Two points about who is actually in scope:

Qualifying income is gross, and it is tested on an earlier year. Qualifying income means your combined self-employment and property income **before expenses** — not your profit. HMRC works it out from the relevant earlier tax return, not from the year in which you start. See the table below.

Meeting the threshold is not the whole test. You also need to be an individual sole trader or landlord who is registered for Self Assessment, and not covered by an exemption. Partnerships are not yet within MTD for Income Tax and do not have a confirmed start date.

8.2 MTD Implementation Timeline

Tax return used to test income	Qualifying income	MTD starts
2024/25	over £50,000	6 April 2026 — now in force
2025/26	over £30,000	6 April 2027
2026/27	over £20,000	6 April 2028

Read the Left-Hand Column Carefully

The threshold is tested against an earlier year's tax return, not the year MTD begins. Someone whose 2024/25 return showed gross self-employment and property income above £50,000 came into MTD on 6 April 2026 — regardless of what their 2026/27 income turns out to be. This is the part most often misread.

No Penalty Points for Late Quarterly Updates in the First Year

HMRC has confirmed that **penalty points will not be applied for late quarterly updates during 2026/27**, the first year of operation. Note what this does and does not cover: it applies to the quarterly updates only. Penalties on the annual tax return itself, and on late payment of tax, are unaffected. The obligation to submit the quarterly updates also remains.

8.3 What MTD Requires

- **Digital records** — keep the required income and expense records in compatible software
- **Quarterly updates** — submit summaries of self-employment and property income and expenses every three months
- **Year-end adjustments** — make any necessary accounting and tax adjustments after the end of the tax year
- **Tax return** — complete and submit the annual Self Assessment tax return through MTD-compatible software by 31 January

The quarterly update periods and their deadlines are:

Quarterly update	Standard update period	Deadline
Q1	6 April – 5 July	7 August
Q2	6 April – 5 October	7 November
Q3	6 April – 5 January	7 February
Q4	6 April – 5 April	7 May
Tax return	Full tax year	31 January following the tax year

Quarterly Updates Are Cumulative

Look carefully at the period column. Each update covers the period **from the start of the tax year** to the relevant quarter end — not just the preceding three months. The second update therefore covers six months, the third nine months, and the fourth the whole year. Each one restates the position to date rather than reporting a fresh quarter in isolation. This is the point most often misunderstood about MTD.

An Option for a 31 March Year End

If your accounting period runs from 1 April to 31 March, you can elect to use calendar update periods instead: 1 April – 30 June, 1 April – 30 September, 1 April – 31 December, and 1 April – 31 March. The deadlines are unchanged. This saves aligning your bookkeeping to the 6 April tax year for the sake of the updates alone.

8.4 Current Record Keeping Requirements

Even where MTD does not yet apply to you, you must keep accurate records. Required records include:

- All sales and income
- All purchases and expenses
- VAT records (if VAT registered)
- PAYE records (if you have employees)

- Details of business assets
- Bank statements and paying-in slips
- A mileage log, if you claim business mileage

8.5 How Long to Keep Records

Type	Retention Period
Self-employment records	5 years from the 31 January submission deadline
Property business records	5 years from the 31 January submission deadline
Personal tax records	22 months from the end of the tax year
Capital gains records — personal, non-business	Normally at least 1 year after the Self Assessment deadline
Capital gains records — business assets	Follow the business retention period above
VAT records	6 years

> **Letting Property Counts as a Business Here**
>
> For record-keeping purposes a property letting business falls under the business rules, so landlord records follow the longer five-year period rather than the shorter personal one.

> **Getting Ready for MTD**
>
> If your income is below the current threshold but approaching it, start using cloud accounting software now (such as Xero, QuickBooks, or FreeAgent). Moving to digital records while you are not yet obliged to is far easier than doing it under a deadline.

8.6 Penalties Where Records Are Inadequate

HMRC can charge penalties where the records you are required to keep are not kept, and particularly where inadequate records lead to an inaccurate return. Interest is also charged on any tax underpaid as a result.

In practice, the more common consequence of poor records is not a records penalty in itself but a disallowed deduction: a claim that cannot be supported is a claim that cannot be defended.

8.7 Changes Already Legislated for Later Years

Two changes are already legislated and worth planning for:

From 2027/28

- The points-based penalty regime extends to personal Self Assessment returns generally. Partnerships, trusts and estates remain subject to separate arrangements. Taxpayers already within MTD move to the new regime from the tax year in which they join MTD.
- **The late payment penalty rates increase.** Tax still unpaid after day 15 attracts a penalty of 4% of the amount outstanding at that point, with a further 4% charged on the amount still unpaid at day 30. From day 31, an additional penalty accrues daily at an annual rate of 10% on the outstanding balance.

> **A Longer Window in Your First Year**
>
> Transitional rules give you more room the first time you come under the new regime. In that first tax year the initial window is 30 days rather than 15 — pay in full, or agree a payment plan, within 30 days and the first-stage penalty is avoided. This concession applies once, in your first year under the new rules.

From April 2028

- The MTD threshold reduces to qualifying income over £20,000

Appendix A: Tax Rates and Allowances 2026/27

A Note on Scope

Income Tax rates on non-savings, non-dividend income differ between Scotland and the rest of the UK. Both tables are given below. Everything else in this appendix — allowances, dividend rates, savings, capital gains, National Insurance and capital allowances — applies UK-wide.

Income Tax Bands — England, Wales and Northern Ireland

Band	Income Range	Rate
Personal Allowance	£0 – £12,570	0%
Basic Rate	£12,571 – £50,270	20%
Higher Rate	£50,271 – £125,140	40%
Additional Rate	Over £125,140	45%

Thresholds Are Frozen

These thresholds are frozen until 2030/31. As wages rise, more income falls into higher bands without the rates themselves changing — an effect known as fiscal drag.

The £100,000 Trap

For every £2 of income above £100,000, the Personal Allowance is reduced by £1, disappearing entirely at £125,140. Income between those two figures is therefore taxed at an effective marginal rate well above the headline higher rate. Pension contributions can bring income back below £100,000 and restore the allowance. The Personal Allowance is a UK-wide allowance, so this applies to Scottish taxpayers too.

Income Tax Bands — Scotland

Scottish taxpayers pay Scottish rates on non-savings, non-dividend income. There are six bands rather than three, and the thresholds differ.

Band	Income Range	Rate
Personal Allowance	Up to £12,570	0%
Starter Rate	£12,571 – £16,537	19%
Basic Rate	£16,538 – £29,526	20%
Intermediate Rate	£29,527 – £43,662	21%

Band	Income Range	Rate
Higher Rate	£43,663 – £75,000	42%
Advanced Rate	£75,001 – £125,140	45%
Top Rate	Over £125,140	48%

Savings and Dividends Are Not Devolved

Two things stay UK-wide wherever you live: **savings income and dividend income continue to be taxed at UK rates**. So a Scottish taxpayer uses the Scottish bands above for employment, self-employment, pension and property income, and the UK rates in the dividend and savings tables below.

Note also that the Scottish higher rate begins at £43,663 — well below the £50,270 point where the higher rate starts elsewhere in the UK. A Scottish taxpayer can be paying 42% on income that would attract 20% in England.

Whether you are a Scottish taxpayer depends on where your main home is during the tax year, not on where you work.

National Insurance (Self-Employed)

Class	2026/27
Class 2	£3.65 per week, voluntary, where profits are below £7,105. Where profits are £7,105 or more, Class 2 contributions are treated as paid and no Class 2 payment is normally required.
Class 4	6% on profits between £12,570 and £50,270; 2% above £50,270

Class 2 Is Not What It Used to Be

Class 2 National Insurance is no longer a compulsory weekly charge for most self-employed people. Where your profits reach £7,105, your contributions are treated as paid — you get the State Pension credit without paying anything. Below that level, you can choose to pay voluntarily at £3.65 a week to protect your record. Older guides that describe Class 2 as a compulsory payment above £12,570 are out of date.

Key Allowances

Allowance	2026/27
Personal Allowance	£12,570
Trading Allowance	£1,000
Property Allowance	£1,000
Rent a Room Allowance	£7,500 (£3,750 if shared)

Allowance	2026/27
Dividend Allowance	£500
Personal Savings Allowance (Basic Rate)	£1,000
Personal Savings Allowance (Higher Rate)	£500
Personal Savings Allowance (Additional Rate)	£0
Capital Gains Annual Exempt Amount	£3,000
Annual Investment Allowance	£1,000,000

Dividend Tax Rates

Band	2026/27
Ordinary Rate	10.75%
Upper Rate	35.75%
Additional Rate	39.35%

Capital Allowances

Allowance	Rate
Annual Investment Allowance	100%, up to £1,000,000
40% First Year Allowance (expenditure from 1 January 2026)	40%
Main Rate Writing Down Allowance	14% (Income Tax: from 6 April 2026)
Special Rate Writing Down Allowance	6%
Zero-emission cars	100% First Year Allowance (Income Tax: to 5 April 2027)

Simplified Mileage Rates for Self-Employed Businesses

Vehicle	First 10,000 miles	Over 10,000 miles
Cars and goods vehicles	55p	25p
Motorcycles	24p	24p

What Changed for 2026/27

Several figures in this manual changed recently, and older published material — including some still online — may show the previous position:

- The **dividend ordinary and upper rates** each rose by two percentage points, to 10.75% and 35.75%, from 6 April 2026
- The **simplified mileage rate** for cars and goods vehicles rose from 45p to 55p for the first 10,000 business miles from 6 April 2026, the first change since 2011/12
- The **main pool writing down allowance** fell from 18% to 14% (Income Tax: 6 April 2026)
- A new **40% first year allowance** became available for expenditure from 1 January 2026
- The **furnished holiday lettings regime** was abolished from 6 April 2025
- **MTD for Income Tax** came into force in April 2026 for qualifying income over £50,000

When checking any figure against an online source, confirm which tax year the source relates to before relying on it — and, for capital allowances, whether the source is written for Income Tax or Corporation Tax, because the effective dates differ.

Appendix B: Self Assessment Checklist

Before You Start

- Gather your Unique Taxpayer Reference (UTR)
- Collect P60/P45 from employers
- Gather records of self-employment income and expenses
- Collect property income and expense records
- Obtain dividend vouchers and interest statements
- Gather capital gains disposal records
- Collect pension contribution statements
- Gather Gift Aid donation records
- Locate your mileage log, if claiming business mileage

During Completion

- Complete all relevant supplementary pages
- Check all figures match your records
- Claim all allowable expenses
- Check you have not included the cost of preparing your personal tax return
- Apply correct capital allowances
- Check you are using 2026/27 rates, not those of an earlier year
- Check calculations are correct

After Submission

- Save the confirmation and receipt
- Note the amount of tax due
- Set a reminder for the payment deadline
- Check whether Payments on Account apply to you
- Store all records securely for the applicable HMRC retention period (see section 8.5)

Appendix C: Useful Resources

HMRC Online Services

- HMRC Self Assessment login: www.gov.uk/log-in-file-self-assessment-tax-return
- Register for Self Assessment: www.gov.uk/register-for-self-assessment
- Payment options: www.gov.uk/pay-self-assessment-tax-bill

HMRC Helplines

- Self Assessment general enquiries: 0300 200 3310
- Payment enquiries: 0300 200 3401
- Opening hours: Monday to Friday, 8am to 6pm (closed bank holidays)

Reinza Training Support

- Website: www.reinza.com
- Email: training@reinza.com
- Tax services: www.reinza.com/tax-vat.html

— End of Manual —

Thank you for choosing Reinza Training