UK Tax Bulletin

July 2026

Field Court Tax Chambers

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Latest Rates of Interest

I have discontinued the rates of inflation chart on the grounds that the Retail Price Index is not particularly helpful. The CPI tends to be used more often.

I will bring it back if a present or future Chancellor has a brainwave and comes up with a new, novel, idea of indexation for capital gain tax.

The following are the latest rates of interest on overdue (and overpaid) tax:

Interest on overdue tax

Interest on all unpaid tax is charged at the same rate.

The formula is Bank base rate plus 4% which gives a rate of 7.75% which applies from 9th January 2026.

There is one exception: Quarterly instalments of corporation tax bear interest at 6.25% from 29th December 2025 and interest on overpaid instalments is 3.50%.

Repayment supplement

Interest on overpaid tax is paid at Bank base rate minus 1% which gives a rate of 2.75% from 9th January 2026

Official rate of interest:

From 6th April 2025: 3.75%

Sanctionable Conduct

I made reference in March to the new provisions in the Finance Act 2026 relating to tax advisers whereby HMRC can take some pretty draconian action against tax advisers who engage in "Sanctionable Conduct". This is really important – at least for tax advisers.

If HMRC suspects a tax adviser of sanctionable conduct, they can demand the adviser's working papers, audit files and other documents used to prepare the client's accounts. If HMRC find any inaccuracy in the files they can charge a penalty of £3000 per inaccuracy – and can also issue a "conduct notice" with further penalties of eye watering amounts. HMRC can also publish your name and address, your business and sufficient other information to identify you clearly. Which is probably career ending.

No reputable adviser would expect to be troubled by this - but there is real cause for alarm when you read he definitions.

Sanctionable conduct occurs where the tax advisor "does something with the intention of bringing about a loss of tax revenue". A loss of tax revenue is defined as including:

- Accounting for less tax than is required by law.
- Obtaining more relief than they are entitled by law.

The HMRC Compliance Handbook has lots of guidance on this, updated last week, in which they say that sanctionable conduct will not include:

- Taking a credible view of what the law requires even where this might differ from HMRC's own view.
- Making a genuine mistake or error even where the error may amount to a failure to take reasonable care.

This is very comforting – or it would be if it was supported by the legislation. Unfortunately it is not. HMRC provides a statutory reference for this statement as Schedule 38(3) FA 2012 but there is nothing in Schedule 38(3) or anywhere else that gives any authority for these words.

If you submit a tax return on behalf of a client, claiming a relief which you believe he is entitled (or perhaps a deduction for allowable expenses) which is challenged by HMRC and you end up accepting a disallowance and an increase in the tax payable, you have ticked all the boxes for sanctionable conduct. And you are in REAL trouble.

There is clearly "a loss of tax" because by submitting the tax return you were intending that he should account for £x in tax (which you believed to be correct) but as it turned, out he should have paid more than £x. There is no protection in the legislation for taking a credible view or making a genuine error.

HMRC clearly thinks that these rules apply only to advisers who deliberately contribute to non-compliance intending to cause a loss of tax. The original legislation referred to an individual who "engages in dishonest conduct" but this is no longer the test. It has been replaced by "sanctionable conduct" by FA 2026.

The adviser is going to be at risk unless everything he submits to HMRC relating to the client's tax affairs is correct – and is agreed to be correct by HMRC. Good luck with that.

(There is a provision for a reasonable excuse in paragraph 25, but this only applies to penalties for failing to comply with an "Access Notice" in paragraph 22. It does not apply to anything else.)

This is really serious and all we have to rely on is the HMRC Compliance Handbook should any innocent error or disagreement with HMRC arise. Which I guess it might sometimes…maybe. It grieves me to say so but this is little comfort because HMRC are known to disregard their Manuals if they feel the need, on the grounds that they are obliged to act in accordance with the law. An application for Judicial Review is hardly an adequate remedy.

I think we need (and deserve) some kind of formal statement from HMRC about this, on which we can all rely.

Home Loan Schemes

As many will be aware, a Home Loan Scheme was an arrangement (which had a number of variations) whereby a person transferred their home to a trust in which they had a life interest, in exchange for a promissory note of equivalent value. The promissory note was then settled on a second trust for the benefit of the children but from which the settlor was totally excluded from benefit.

The general idea was that the value of the house was reduced by the amount of the loan so the value remaining in the estate was substantially diminished and the gift of the loan to the second trust became exempt after 7 years.

I apologise for the brevity of my description which will no doubt irritate those with greater experience of home loan schemes and their numerous variations.

In 2003 this type of arrangement was entered into by a Mrs Elborne and was seriously challenged by HMRC. There were many arguments, such as whether the loan was really deductible, whether the amount of the loan should be abated under section 103 FA 1986, whether the gifts with reservation rules applied, and failing all that, it should be struck down by *Ramsay* and/or *Rossendale*.

These questions ultimately found their way to the Court of Appeal. There have been numerous changes in the rules since 2003 which mean that these arrangements would no longer work, so I will not dwell too much on the details even though I am aware that there are still live arguments on the subject.

In essence the Court of Appeal said the arrangements were effective to remove the value of her home from her estate while enabling her to live there for the rest of her life. The loan was deductible from the value of the house, it was not subject to abatement and she had no reservation of benefit in the second trust. Result.

The judgment has a rather chilling footnote which says that the transactions in this case took place before the introduction of DOTAS, and the GAAR, which the Court thought could in principle be deployed to counteract such arrangements.

Appeals

I hesitate to mention this issue because providence might punish me, but there has been a flurry of Tribunal cases recently where the taxpayer's appeal has been struck out because they did not appeal properly.

Everybody knows the general position that under Section 31 TMA 1970 the taxpayer has a right of appeal against an assessment or determination.

Section 31A provides that such an appeal must be given in writing to HMRC within 30 days of the assessment; and Section 49D(2) TMA 1970 gives the taxpayer a right of appeal to the Tribunal.

This all seems perfectly unexceptional. So what's the problem?

The problem is section 49D(1) which says:

> "This section applies if notice of appeal has been given to HMRC"

In the recent cases of *Andy Irons Ltd v HMRC TC 9864*, *BW Interiors Ltd v HMRC TC 9832* and *Stefan-Valentin Moscal v HMRC TC 9862*, HMRC applied to have the appeals struck out because the appeal had been notified directly to the tribunal and not to HMRC. The Tribunal held:

> "The Appellant did not notify his appeal in writing to HMRC as required by s 49D(1) TMA prior to notifying the Tribunal and in those circumstances the Tribunal has no jurisdiction and HMRC's application must be allowed"

This is not an entirely new argument; it follows the decision of the FTT in *Flash Film Transport Ltd v HMRC* in 2019 and earlier cases (including a decision of the Court of Appeal in *PML Accounting Ltd*) but it has certainly gained some serious traction in 2026. It is a bit tough, to say the least, that a taxpayer's right of appeal can be completely torpedoed by such a trivial procedural defect – particularly where he is unrepresented – but there is no doubting the law on the point.

Dental Prostheses

I never expected these words to appear in this or any other Tax Bulletin, but sometimes, you know, after marshmallows, anything is possible. I always strive to be at the cutting edge (or biting edge) of tax practice.

I understand that dental prostheses are "artificial items which replace missing or damaged teeth" and they are exempt from VAT. Schedule 9 Group 7 VATA 1994.

However, "aligners" which are removable orthodontic appliances used to treat malocclusion by repositioning teeth, are not dental prostheses. They are standard rated. I mean, obviously.

(Well, the FTT thought they were exempt, but they were wrong: *HMRC v Align Technology Switzerland Gmbh [2026] UKUT 256).*

You heard it here first! (and if you didn't, you should get out more.)

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