Summer 2026

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CHARTERED ACCOUNTANTS

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Financial news that's relevant to you.

INTRODUCTION

In this newsletter we look at a range of practical issues affecting businesses and private clients, including the importance of maintaining adequate reserves, reviewing pricing policies, monitoring profitability through management accounts and understanding some of the tax and VAT issues that continue to affect many owner managed businesses.

While the current environment remains challenging, businesses that maintain strong financial controls and plan ahead carefully are often better placed to respond successfully to changing conditions and future opportunities.

BUSINESS

The challenges facing UK businesses for the rest of 2026

The UK economy continues to present a mixed picture for business owners. While inflation has eased from the high levels seen previously, many businesses are still facing rising operating costs, cautious consumer spending and ongoing economic uncertainty.

Recent economic forecasts suggest that UK growth during 2026 is likely to remain relatively weak by historic standards. The Office for Budget Responsibility has reduced growth expectations, while several independent commentators continue to warn about subdued business confidence and slowing recruitment activity.

For many small and medium sized businesses, one of the biggest concerns remains cost pressure. Wage costs, energy prices, borrowing costs and supplier charges continue to affect profitability. Recent increases in oil and energy prices linked to geopolitical tensions have added further uncertainty, particularly for transport, manufacturing and energy intensive sectors.

Cash flow management is therefore likely to remain extremely important during the remainder of 2026. Many businesses are already reporting pressure from slower customer payments and reduced consumer confidence. Some sectors, particularly retail, hospitality and construction, are facing especially difficult trading conditions.

Higher interest rates also continue to affect businesses and individuals with borrowings. Although there is speculation that rates may reduce gradually over time, inflationary pressures remain a concern for the Bank of England. Businesses with loans, overdrafts or property finance arrangements may therefore continue to experience relatively high financing costs during the year ahead.

Against this backdrop, many business owners may benefit from reviewing, pricing policies, staffing structures, debtor collection procedures, cash reserves, and overall profitability. Businesses with strong financial reporting and regular management information are often better placed to identify potential problems early and respond quickly to changing conditions.

While opportunities still exist for well-managed businesses, the remainder of 2026 is likely to require careful financial control, forward planning and close attention to cash flow.

If you would like assistance reviewing the financial resilience of your business, please contact us.

Inflation and the erosion of cash reserves

Many business owners take comfort from seeing healthy cash balances in their bank accounts. However, during periods of inflation, the real value of those reserves can quietly reduce over time, even where the cash balance itself appears stable.

Inflation increases the cost of goods, services, wages, energy and borrowing. As prices rise, the purchasing power of money falls. This means that a business holding substantial cash reserves may gradually find that those funds buy less than they did previously.

For example, a cash reserve that once covered six months of operating costs may now only cover four or five months if supplier costs, payroll and overheads have increased significantly. Businesses that fail to review their cash requirements regularly may therefore be left with less financial protection than expected.

Inflation can also affect future investment plans. Equipment purchases, software upgrades, expansion projects and recruitment costs may all become more expensive over time. Businesses that delay investment decisions may find that projects originally considered affordable become increasingly difficult to finance.

Another challenge arises where surplus cash earns interest below the prevailing rate of inflation. In these circumstances, the real value of idle funds can reduce year after year.

Business owners may therefore wish to consider:

- reviewing short and medium term cash flow forecasts,
- reassessing the level of working capital required,
- reducing unnecessary costs,
- reviewing pricing policies regularly,
- and considering whether surplus funds are being used efficiently.

Maintaining strong cash reserves remains extremely important, particularly during periods of economic uncertainty. However, inflation means that businesses should focus not only on the amount of cash held, but also on the real purchasing power and long-term effectiveness of those reserves.

Regular financial reviews can help businesses identify whether existing reserves remain sufficient to support future trading requirements and investment plans.

If you would like to discuss cash flow planning and financial resilience within your business, please contact us.

The importance of maintaining adequate business reserves

Many businesses experienced significant financial pressure during recent periods of economic uncertainty, while continuing inflation, higher borrowing costs and slower customer payments mean that maintaining adequate business reserves remains extremely important during 2026.

Although some businesses have returned to more stable trading conditions, many owners remain vulnerable to unexpected costs, weaker sales or temporary cash flow disruption. Businesses operating with limited reserves may therefore find it more difficult to absorb sudden financial shocks.

Business reserves (in the form of retained profits) provide an important financial buffer and can help businesses continue trading through periods of uncertainty without relying excessively on borrowing facilities or emergency funding. Unfortunately, some business owners focus primarily on extracting profits while overlooking the importance of retaining sufficient working capital within the business itself. In certain situations, businesses may appear profitable while still experiencing cash shortages because reserves have become too low.

Adequate reserves may help businesses manage unexpected tax liabilities, rising supplier costs, equipment replacement, slower customer payments, and temporary downturns in trading activity. Reserves may also allow businesses to take advantage of future opportunities, including expansion, recruitment or investment in technology and systems improvements.

The level of reserves required will vary depending on the nature of the business, the stability of income and the level of ongoing financial commitments. Businesses operating in volatile sectors may require larger reserves than those with highly predictable income streams.

Regular financial reviews and cash flow forecasting can help business owners assess whether current reserve levels remain appropriate in light of changing economic conditions.

Maintaining strong reserves may not eliminate risk entirely, although it can significantly improve financial resilience and provide greater flexibility during uncertain trading periods.

Why management accounts are becoming essential

Many smaller businesses still rely heavily on annual accounts to assess performance, although in the current economic environment this approach is becoming increasingly risky because trading conditions, costs and customer demand can change far more quickly than they did previously.

Management accounts provide business owners with more regular financial information and can help identify developing problems before they become serious. Instead of waiting until the year end, businesses are able to monitor profitability, cash flow and cost trends throughout the year, which often leads to faster and better informed decision making.

For many businesses, rising wage costs, higher supplier prices and increased borrowing costs are placing pressure on profit margins. Without regular financial reporting, these changes can remain hidden until profits have already deteriorated significantly.

Management accounts may help businesses monitor gross profit margins, identify rising overheads, track cash flow movements, review debtor levels, and forecast future tax liabilities. They can also support decisions involving pricing, recruitment, investment and borrowing. Importantly, management accounts are not only useful when problems arise. Businesses experiencing growth may also benefit because expansion can place pressure on working capital and operational systems if growth is not managed carefully.

Regular financial reporting often provides business owners with greater confidence because decisions are based on current financial information rather than assumptions or outdated figures. In uncertain economic conditions, businesses that understand their financial position clearly are often better placed to respond quickly to changing circumstances and protect long term profitability.

If you would like assistance introducing or improving management reporting within your business, please contact us.

Reviewing pricing policies in an inflationary environment

Many businesses remain reluctant to increase prices because they are concerned about losing customers or becoming less competitive. However, with inflation continuing to affect wages, supplier costs, energy prices and borrowing expenses, failing to review pricing policies regularly can gradually erode profitability and weaken cash flow.

In some cases, businesses are working harder simply to maintain the same level of profit they achieved previously. Rising costs are often absorbed quietly over time, particularly where pricing structures have not been reviewed for several years.

The challenge for many business owners is that customers themselves are also facing financial pressure, which means price increases need to be handled carefully and supported by clear communication. Businesses may benefit from reviewing whether all costs are being recovered properly, whether lower margin products or services remain worthwhile, whether pricing reflects the true value being delivered, and whether operational efficiencies could improve profitability.

Some businesses are also finding that small, gradual price increases are more manageable for customers than infrequent large increases introduced after margins have already been damaged.

It is important to remember that turnover growth alone does not guarantee improved profitability. A business can generate higher sales while profits decline if costs increase more quickly than prices. Regular financial reviews and management reporting can help identify where margins are under pressure and whether pricing strategies remain commercially sustainable.

Although increasing prices can feel uncomfortable, maintaining long term profitability is essential if businesses are to continue investing, employing staff and managing future uncertainty successfully.

Check reserves before paying dividends

Many owner managed companies regularly pay dividends to directors and shareholders as a tax efficient method of extracting profits. However, before any dividend is paid, it is important to confirm that the company has sufficient distributable reserves available.

Under company law, dividends can only be paid from accumulated realised profits, less accumulated realised losses. In simple terms, this means a company must have enough retained profit reserves available at the time the dividend is declared.

Problems can arise where directors rely solely on the bank balance when deciding whether funds are available. A company may have cash in the bank but still lack sufficient distributable profits due to trading losses, previous dividends, depreciation charges or other balance sheet adjustments.

Paying an unlawful dividend can create a number of difficulties. HMRC may seek to reclassify the payment, potentially treating it as a director's loan or remuneration in certain circumstances. Directors may also face pressure to repay unlawful dividends if the company later encounters financial difficulties.

Regular management accounts can therefore play an important role in supporting dividend decisions. Up to date financial information helps confirm whether adequate reserves exist and whether the proposed payment remains commercially sensible after allowing for future tax liabilities, working capital needs and trading risks.

Business owners should also remember that profits shown in draft accounts may change before finalisation, particularly where year-end adjustments are still being reviewed.

Careful planning before dividends are declared can help avoid unexpected tax issues and protect the long term financial stability of the company. If you would like assistance reviewing distributable reserves or planning profit extraction strategies, please contact us.

PERSONAL

Do not overlook ISA allowances

Individual Savings Accounts (ISAs) continue to provide a valuable opportunity to shelter savings and investments from Income Tax and Capital Gains Tax. Many taxpayers focus on pensions and property investments while overlooking the long-term value of building tax efficient ISA portfolios.

Interest, dividends and gains generated within an ISA are generally free from further UK tax, which can become increasingly important as investment returns grow over time.

Unused ISA allowances cannot normally be carried forward, meaning opportunities may be lost permanently if annual limits are not used.

Regular contributions, even at modest levels, can help build significant tax efficient savings over the longer term.

Why reviewing investment structures matters

Many individuals build investment portfolios gradually over time without regularly reviewing whether their investments remain structured in the most tax efficient way. As savings and investments grow, exposure to Income Tax and Capital Gains Tax can increase significantly. Interest, dividends and investment gains that initially fell within available allowances may eventually create unexpected tax liabilities.

Regular reviews may help identify opportunities to make better use of:

- ISA allowances,
- pension contributions,
- spousal ownership arrangements,
- and Capital Gains Tax exemptions.

Different investments can also carry varying levels of risk, liquidity and tax treatment. Over time, portfolios may become concentrated in particular sectors or asset classes without investors fully realising the level of exposure involved. Inheritance Tax planning should also be considered. Certain investment structures may affect the future value of an estate and the availability of reliefs.

Periods of economic uncertainty can

further underline the importance of reviewing investment strategies regularly. Inflation, interest rate changes and market volatility may all affect long term investment objectives and income requirements.

A structured review does not necessarily mean major changes are required. In many cases, relatively modest adjustments can improve tax efficiency and help ensure investments remain aligned with personal objectives and risk tolerance.

Individuals approaching retirement or drawing income from investments may particularly benefit from periodic reviews. If you would like to discuss investment structuring and tax planning opportunities, please contact us.

Why keeping wills up to date remains important

Many individuals prepare a will and then assume the matter has been dealt with permanently. However, changes in family circumstances, asset values and tax rules can mean that an older will no longer reflects a person's wishes or financial position.

Marriage, divorce, the birth of children or grandchildren, business ownership changes and property acquisitions can all affect how an estate should ideally be structured. In some situations, an outdated will may create unintended tax consequences or increase the likelihood of disputes between family members.

Inheritance Tax planning is also an important consideration. Rising property values and investment growth can gradually increase estate values over time, potentially creating larger tax exposures than originally expected.

Regular reviews can help ensure that wills continue to reflect current wishes and make effective use of available reliefs and exemptions. Business owners, individuals with investment portfolios and those with blended families may particularly benefit from periodic reviews.

It is also important to consider whether lasting powers of attorney are in place. These can help ensure that trusted individuals are able to manage financial affairs if someone later becomes unable to do so themselves.

Many people delay reviewing estate planning arrangements because the subject feels uncomfortable or because they believe little has changed. In practice, regular reviews can provide reassurance and help avoid unnecessary complications later.

If you would like to discuss estate planning or inheritance considerations, please contact us.

Check your tax code regularly

Many employees assume that their PAYE tax code is always correct. Unfortunately, HMRC tax codes are not always accurate, particularly where an individual has changed jobs, received benefits in kind, started receiving pension income or has multiple sources of income.

An incorrect tax code can result in either underpaid or overpaid tax. In some cases, taxpayers may unknowingly build up liabilities over several years before the issue is identified.

It is sensible to review tax codes regularly and compare them with expected income sources and benefits.

Small errors can sometimes lead to significant adjustments later.

If you are unsure whether your tax code is correct, we can help identify potential issues before they become more costly.

VAT & DUTIES

Late VAT returns can create unnecessary costs

Late VAT returns and delayed VAT payments can quickly become expensive for businesses, particularly since HMRC introduced the new points-based penalty regime.

Under the present system, businesses receive penalty points each time a VAT return is submitted late. Once a certain number of points has been reached, financial penalties may apply. Interest is also charged on overdue VAT liabilities, increasing the overall cost of late compliance.

For many small businesses, delays often arise because bookkeeping records are not kept fully up to date throughout the quarter. Instead, businesses sometimes attempt to process large volumes of transactions shortly before filing deadlines, increasing the risk of errors, missing information and late submissions.

Cash flow pressures can create additional difficulties. Some businesses delay submitting VAT returns because they are concerned about being unable to pay the liability immediately. However, failing to file returns on time may often worsen the situation by triggering further penalties and interest.

Good VAT compliance procedures can therefore play an important role in reducing financial risk. Businesses may benefit from maintaining regular bookkeeping routines, reviewing VAT liabilities monthly, ensuring accounting software is updated correctly, and planning ahead for future VAT payments.

Businesses experiencing temporary payment difficulties should also remember that HMRC's Time to Pay arrangements may sometimes be available where problems are addressed early.

Regular monitoring of VAT compliance can help reduce unnecessary stress, improve financial visibility and minimise the risk of unexpected penalties.

Check whether the correct VAT rate is being applied

Applying the wrong VAT rate remains one of the most common VAT problems affecting small businesses. In some sectors, determining the correct treatment is not always straightforward, particularly where products or services fall close to the boundaries between standard rated, reduced rated and zero rated supplies.

Businesses sometimes assume that all sales should simply be charged at the standard rate of VAT. However, certain goods and services may qualify for different treatment depending on exactly what is being supplied and how the transaction is structured.

Errors can arise in many areas including construction work, food sales, property transactions, energy saving materials and mixed supplies of goods and services. In some cases, relatively small changes in wording, packaging or invoicing arrangements can affect the VAT position.

Where VAT is undercharged, HMRC may seek to recover the shortfall together with interest and penalties. Unfortunately, businesses are not always able to recover the additional VAT from customers retrospectively, meaning the cost may fall directly on the business itself.

Overcharging VAT can also create difficulties. Customers may challenge invoices and businesses may need to correct previous VAT returns and refund customers where mistakes are identified.

As businesses evolve, introduce new services or enter different markets, the VAT position should ideally be reviewed regularly. Relying on historic assumptions can sometimes create long term problems if legislation or HMRC interpretation changes.

Periodic VAT health checks and reviews of new business activities can often identify potential risks before they become more serious.

EMPLOYMENT & PAYROLL

Taking on your first employee

For many business owners, employing staff for the first time is an important milestone. It can help a business grow, improve customer service and reduce pressure on the owner. However, becoming an employer also brings additional responsibilities that should not be overlooked.

Before employing staff, businesses will normally need to register as an employer with HMRC and operate a PAYE payroll scheme. Employers are responsible for deducting Income Tax and National Insurance contributions correctly and reporting payroll information to HMRC on time.

Employment contracts should also be prepared. Even where staff are employed informally or on a part time basis, written terms and conditions are important in setting out working hours, pay arrangements, holiday entitlement and other responsibilities.

Businesses should also be aware of:

- minimum wage requirements,
- pension auto-enrolment obligations,
- holiday pay rules,
- Statutory Sick Pay,
- and workplace insurance requirements.

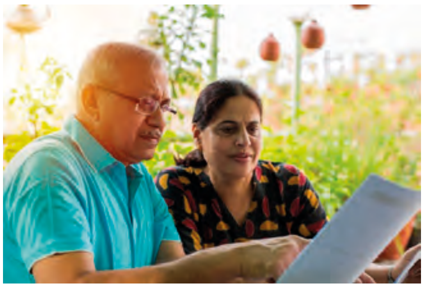
Employers' liability insurance is usually compulsory when employees are engaged. Failure to arrange appropriate cover can lead to significant penalties. Recruitment itself also requires careful consideration. Taking on staff creates an ongoing financial commitment and business owners should consider whether projected income levels can comfortably support wage costs, pension contributions and associated overheads.

Good record keeping is extremely important from the outset. Payroll records, holiday records and employee documentation should be maintained carefully in case questions arise later. For many smaller businesses, employing staff for the first time can feel daunting. However, with proper planning and professional support, the process can be managed smoothly and may create valuable opportunities for future business growth.

If you would like assistance setting up payroll systems or understanding your responsibilities as a new employer, please contact us.

NIC & PENSIONS

Review pension contribution levels regularly



Pension contributions remain one of the most valuable long term tax planning opportunities available to many taxpayers.

In addition to supporting retirement planning, pension contributions can help reduce taxable income and, in some situations, preserve entitlement to personal allowances or reduce exposure to the High Income Child Benefit Charge.

However, contribution limits and available relief can vary depending on earnings, total income and previous pension usage.

Regular reviews can help ensure pension arrangements remain aligned with both financial goals and tax planning opportunities.

Taxpayers approaching higher rate tax bands may particularly benefit from reviewing contribution levels before the end of the tax year.

FINANCIAL CALENDAR

Every month:

1 Annual Corporation Tax due for companies with a year ending nine months and a day earlier, e.g. tax due 1 October 2026 for year ending 31 December 2025.

14 Quarterly instalment of Corporation Tax due for large companies (depending on accounting year-end).

19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.

22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.

30/31 Submit CT600 for a year ending 12 months earlier. Last day to amend CT600 for a year ending 24 months earlier.

If the due date for payment falls on a weekend or Bank Holiday, payment must be made by the previous working day. Electronic payments sent using the Faster Payments Service (FPS) are able to clear into HMRC's account on a non-banking day – a Saturday, Sunday and most Bank Holidays.

File accounts with Companies House for private companies with a year ending nine months earlier and for public companies with a year ending six months earlier.

July 2026

5 Final date to agree 2025/26 PAYE Settlement Agreements (PSA).

6 Last date for returns of expenses and benefits (forms P11D, P9D and P11D(b)) for 2025/26 to reach HMRC. Relevant employees to receive copies of forms P11D and P9D.

6 Last date to submit annual returns for employee share schemes and employment-related securities for 2025/26 (forms 34, 35, 39, 40 and 42).

14 Due date for CT61 return and CT payment for quarter to 30 June 2026.

22 Class 1A NICs for 2025/26 due (19^{th} if paid by cheque).

31 Due date for second payment on account of 2025/26 Income Tax and Class 4 NICs.

31 Last day to pay 2024/25 tax to avoid second automatic 5% surcharge (unless late payment agreed with HMRC).

August 2026

2 Submit employer forms P46 (car) for quarter to 5 July 2026

October 2026

5 Deadline to notify HMRC of chargeability to Income Tax or CGT for 2025/26.

14 Due date for CT61 return and CT payment for quarter to 30 September 2026.

31 Deadline to submit 2025/26 Self Assessment tax return if filed on paper.

November 2026

2 Submit employer forms P46 (car) for quarter to 5 October 2026.

December 2026

30 Last day to submit 2025/26 tax return online to have unpaid tax of up to £17,000 collected through the 2027/28 PAYE code. The amount of debt that can be coded out in a year ranges from £3,000 to £17,000 based on a graduated scale.

January 2027

14 Due date for CT61 return and CT payment for quarter to 31 December 2026.

31 Submit 2025/26 Self Assessment return online. Pay balance of 2025/26 Income Tax and CGT plus first payment on account for 2026/27.

February 2027

2 Submit employer forms P46 (car) for quarter to 5 January 2027.

March 2027

31 Last minute planning for 2026/27 tax year. Make sure to use any CGT and IHT annual allowances and exemptions.

April 2027

5 Last day of tax year (6 April 2027, first day of new tax year).

14 Due date for CT61 return and CT payment for quarter to 31 March 2027.

May 2027

3 Submit employer forms P46 (car) for quarter to 5 April 2027.

31 Last day to issue 2026/27 P60s to employees.

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