NEWS ROUND-UP

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HICKS
CHARTERED ACCOUNTANTS
AUDIT & TAX SPECIALISTS

WWW.HICKS.CO.UK
ADMIN@HICKS.CO.UK
01582 766677

FROZEN THRESHOLDS PUSH LOW EARNERS INTO TAX

Vulnerable taxpayers face growing risks as the continued freeze on the personal allowance is expected to push around 780,000 low-income earners into the tax system by 2029/30.

Many will be people earning only slightly above the minimum wage, often working zero-hours contracts or combining multiple part-time roles. For individuals already balancing essential living costs, entering the tax system introduces new financial and administrative pressures.

Demand for support is already rising. TaxAid has reported a 58% increase in demand over the past three years, assisting more than 18,000 people last year alone. The threshold freeze is likely to accelerate this trend. According to the Office for Budget Responsibility, the personal allowance would otherwise be almost £5,000 higher by 2030/31, effectively increasing tax liabilities for lower earners.

Existing taxpayers are also affected, as wage increases gradually push them into higher tax bands while thresholds remain unchanged. Pensioners face particular challenges. By 2027/28, the full new state pension is expected to exceed the personal allowance, potentially leaving some pensioners with unexpected tax bills and complex assessments, particularly those with health or accessibility needs.

The rollout of Making Tax Digital (MTD) adds further pressure. From April 2026, self-employed individuals and landlords earning over £50,000 must submit quarterly digital updates, with the threshold reducing to £30,000 from April 2027. Many vulnerable taxpayers lack digital skills or reliable internet access, increasing the risk of non-compliance and unexpected tax debts.

Additional measures, including higher property tax rates from 2027, may indirectly increase living costs if landlords pass on higher tax burdens through rent rises.

However, some reforms offer support. Proposed loan charge resolution measures and stronger action against tax avoidance promoters represent positive steps towards protecting vulnerable taxpayers from unfair financial hardship.

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AUTOMATION DRIVES SERVICE SECTOR JOB CUTS

UK service sector employers reduced staffing levels in January as businesses increasingly relied on automation rather than recruiting new employees.

The latest purchasing managers' index (PMI) revealed that job losses accelerated in January compared with December, extending a pattern that began in October 2024. The survey highlighted the longest period of workforce reductions in the sector for 16 years, with many organisations also choosing not to replace staff who left voluntarily.

Compiled by S&P Global, the survey found that companies are using automation to offset labour shortages and improve efficiency. Firms are also responding to squeezed profit margins and uncertain market conditions, which have made hiring decisions more cautious. The services sector accounts for nearly 80% of UK economic output and includes industries such as hospitality, professional services, and financial firms.

The findings come amid growing investor concern that artificial intelligence will replace certain professional roles. This followed an announcement by Anthropic, the developer of the Claude chatbot, claiming its technology could automate parts of legal work. The news triggered share price falls among publishing and data businesses, initially in London before spreading globally, despite the FTSE 100 reaching a record high.

Entry-level roles in several service industries have been particularly affected by rising employment costs. Increases to the national living wage and employer National Insurance contributions, alongside higher energy, food and business rate expenses, have placed additional financial pressure on organisations.

Despite these challenges, business activity in the services sector strengthened at the start of 2026. The PMI rose to 54 in January, up from 51.4 in December, marking the fastest expansion since August. Combined with manufacturing data, overall UK business activity reached a 17-month high, supported by improved confidence following November's Budget announcement.

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MANUFACTURING REBOUND MIRRORS ECONOMIC STRENGTHENING

British manufacturers recorded one of their strongest months in years in January.

The closely watched purchasing managers' index (PMI) for manufacturing rose to 51.8 in January, up from 50.6 in December and its highest level since August 2024. Any reading above 50 indicates growth. The survey, based on responses from around 650 manufacturers, also showed new export orders increasing for the first time in four years. Demand improved from key markets including Europe, the US and China, while business optimism about the year ahead reached its highest point since before the 2024 Autumn Budget.

The improvement in manufacturing mirrors broader signs of economic strengthening. A combined PMI covering manufacturing and services pointed to the fastest expansion in overall business activity since April 2024. Official data has also been more positive, with retail sales beating expectations in December and GDP rising by an unexpected 0.3% in November.

Separate figures from the Institute of Directors showed economic confidence among its members improving in January to its highest level in eight months, despite remaining negative overall. Confidence in their own organisations, however, moved back into positive territory.

Together, the data suggest that uncertainty following Rachel Reeves's November Budget has eased, after tax speculation previously weighed on investment and spending. However, the picture remains mixed. Inflation eased to 3.4% in December but is still above the Bank of England's 2% target. At the same time, unemployment has risen to a near five-year high, and manufacturers continue to cut jobs, albeit at the slowest pace in over a year.

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SELF ASSESSMENT DEADLINE MISSED BY ONE MILLION

Around one million taxpayers missed the deadline for submitting their 2024/25 self assessment tax return, according to HMRC, leaving many facing financial penalties.

HMRC reported that more than 27,000 people submitted their returns during the final hour before the midnight cut-off on 31 January. In total, about 475,722 returns were filed on the final day, contributing to roughly 11.5m submissions overall. Despite extended helpline hours and webchat support over the weekend, a significant number of taxpayers still failed to meet the deadline.

Anyone who missed the deadline automatically receives a £100 fixed penalty. This applies even if no tax is owed or if any tax due was paid on time. Further charges may apply if the return remains outstanding. After three months, taxpayers can face additional daily penalties of £10 per day, capped at £900. After six months, a further penalty of 5% of the outstanding tax or £300, whichever is higher, may be added. The same charge can be applied again after 12 months.

Late payment penalties may also apply, including additional charges of 5% of unpaid tax at 30 days, six months, and 12 months. Interest is also charged on overdue amounts.

Self assessment applies to individuals with income not taxed automatically through PAYE, including those earning more than £1,000 from self-employment, property rental, or other untaxed income streams.

HMRC has confirmed it will review cases where taxpayers have a reasonable excuse for missing the deadline. However, tax specialists generally recommend paying any initial penalties promptly to avoid further charges, even if an appeal is planned.

Talk to us about your self assessment.

WANT TO TALK TO AN EXPERT?

If you've found the topics covered in this report to be of interest or you would like to delve deeper into any of them, we welcome the opportunity to engage in a more detailed discussion with you. Our team of experts is always keen to share insights, and we're confident that a conversation with us can provide valuable perspective.

We are also well-positioned to update you on the latest trends, opportunities and challenges in the business world. As we all know, staying ahead of the curve is vital in today's fast-paced business landscape, and we're here to help you navigate it successfully.

If you're considering getting extra support, we invite you to explore the comprehensive solutions we offer.

To schedule a meeting or to get more information, please don't hesitate to contact us.

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Vaughan Chambers, Vaughan Road, Harpenden, Hertfordshire, AL5 4EE