INSIGHTS

Loan Charge Settlement Scheme – the wait is finally over

After months of delay, HMRC's new Loan Charge Settlement Scheme is finally in force.

11 AUGUST 2026
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The Employment and Trading Income etc. (Loan Charge Settlement Scheme) Regulations 2026 came into force on **5 August 2026**, following the publication of HMRC's detailed guidance on 17 July. For individuals and employers who have spent years trying to resolve disguised remuneration liabilities, there is now a formal route to settlement under the revised terms announced following Ray McCann's review.

As we covered in our previous updates, the revised terms are materially more favourable than the original Loan Charge position for many taxpayers. However, an HMRC settlement offer is still something that should be checked carefully before it is accepted.

What has now been confirmed?

HMRC has confirmed that the new scheme applies where there is an outstanding disguised remuneration Loan Charge liability that has not been paid in full. Importantly, this can include liabilities where participating persons have already reached financial settlements with HMRC where they were entered into **after 1 June 2021**, provided the relevant amount remains unpaid.

This provides some welcome clarification for taxpayers who have previously agreed terms with HMRC but have not yet discharged the liability in full. Those whose

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relevant liabilities were fully settled, or whose contract settlements pre-date 1 June 2021, are generally outside the new opportunity.

- Rather than aggregating all outstanding loans and effectively taxing them in 2018/19, HMRC will calculate an amount representing the Income Tax and National Insurance that would have arisen in the years in which the relevant loans were received.
- A deduction will be given to reflect historic promoter fees. This is calculated as 10% of the first £50,000 of scheme income and 5% of the next £100,000 in each relevant year, giving a maximum reduction of £10,000 per year.
- A further £5,000 will be deducted from the resulting liability.
- Late payment interest forming part of the original Loan Charge calculation will not be included in the new settlement amount.
- Most penalties will not be charged.
- The overall reduction against the original Loan Charge liability, including relevant interest, is generally capped at £70,000.
- Unpaid Inheritance Tax already due, or becoming due within 90 days of the settlement offer, can be written off. This is outside the £70,000 cap.
- Payment arrangements of up to five years are available under the new terms. Longer periods may be considered depending on the taxpayer's circumstances, although forward interest will apply to instalment arrangements.

The Government previously estimated that most affected individuals could see their outstanding Loan Charge liability reduced by at least 50%, with around 30% potentially having nothing left to pay. The actual outcome will, of course, depend heavily on the facts of each case.

Do not assume HMRC's calculation is correct

This is perhaps the most important practical point.

HMRC will write to taxpayers it believes are eligible and provide a calculation showing the loans and other income used in arriving at the proposed settlement amount. That calculation should be reviewed.

HMRC's own guidance expressly tells taxpayers who disagree with the figures to contact their caseworker, and confirms that a revised settlement offer can be issued where the figures change.

Given the age and complexity of many disguised remuneration cases, there is considerable scope for issues around the underlying loan figures, scheme years, income already taxed, promoter fees, payments already made and liabilities HMRC seeks to include.

Accepting an offer creates a **legally binding contract** with HMRC. Even where the new calculation reduces the amount payable to nil, the settlement agreement still needs to be formally accepted.

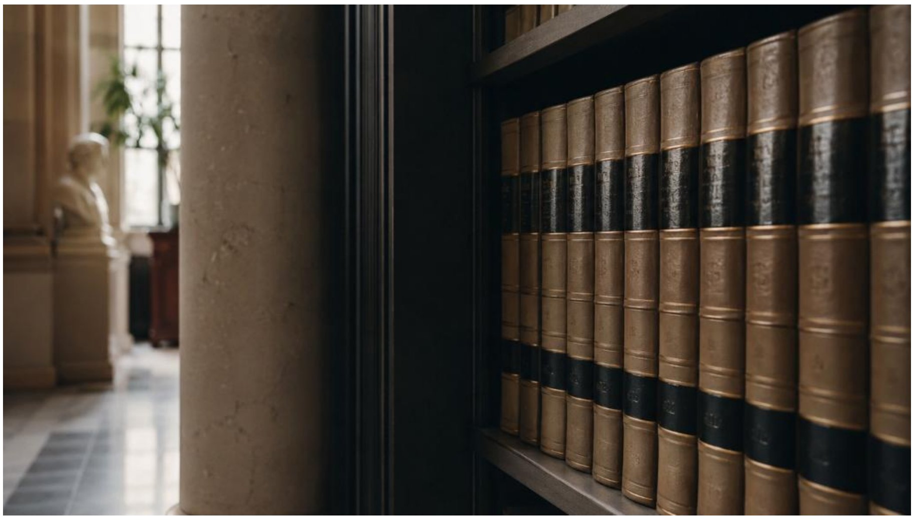
Employers remain an important part of the picture

There is also an important development for cases involving an employer that should originally have operated PAYE.

HMRC now says that, where the employer still exists, it will generally try to settle the Loan Charge liability with the employer first, while writing to the employee at the same time.

The employee can either accept their own offer immediately or wait while HMRC attempts to resolve the liability with the employer. HMRC confirms that waiting will not cause the employee to lose the opportunity to settle.

This could be extremely important in some cases.



However, the published guidance remains relatively brief on the detailed mechanics of employer settlements. Ray McCann's original recommendations included allowing previously claimed Corporation Tax deductions where settlement was agreed at employer level, but HMRC's current public guidance does not expressly address that point. Depending on the size and history of the arrangements, the Corporation Tax treatment alone could have a very significant impact on the overall cost of resolution.

We would therefore be cautious about treating the first computation received from HMRC as necessarily representing the final commercial position.

What about other disguised remuneration liabilities?

Another important feature of the new guidance is that the settlement may extend beyond the Loan Charge itself.

Where a taxpayer has other outstanding disguised remuneration liabilities which are not themselves covered by the new scheme, HMRC says they will be included where they were subject to an enquiry opened, or an assessment issued, on or before **26 November 2025**.

However, the special discounts available under the new scheme apply only to qualifying Loan Charge amounts.

The guidance also does not expressly revisit every issue which has caused difficulty under HMRC's previous settlement approach, including the treatment of certain employer NIC liabilities and section 222 charges.

Those points should therefore be considered carefully where they appear in an HMRC computation rather than assumed to form part of the new concessions.

What should affected taxpayers do now?

After years of uncertainty, the new scheme represents a genuine opportunity for many people to bring these cases to an end on substantially improved terms. But settlement and agreement are not the same thing.

Before signing HMRC's acceptance form, affected taxpayers should understand exactly what has been included, how the liability has been calculated, which amounts have been written off, whether HMRC has properly accounted for amounts already paid and whether any other disguised remuneration liabilities are being incorporated into the agreement.

For employers, the PAYE, NIC and Corporation Tax positions may require separate consideration.

If you have received a Loan Charge settlement offer from HMRC, or expect to receive one, our Tax Investigations team can review the proposed computation and advise on the settlement position before it becomes binding.

If you would like to discuss the new Loan Charge Settlement Scheme or any other disguised remuneration issue, please contact one of our specialists.

Want to know more?

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