EXPLANATORY MEMORANDUM TO

THE EMPLOYMENT AND TRADING INCOME ETC. (LOAN CHARGE SETTLEMENT SCHEME) REGULATIONS 2026

2026 No. 821

1. Introduction

1.1 This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs ("HMRC") on behalf of His Majesty's Treasury and is laid before the House of Commons by Command of His Majesty.

2. Declaration

2.1 Dan Tomlinson MP, Exchequer Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Peter Downing, Deputy Director for Disguised Remuneration Policy, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Owen Price at HMRC can be contacted by email at the following address with any queries regarding the instrument: lcreviewspoc@hmrc.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The loan charge is a tax charge that applies to certain disguised remuneration loans, where income was provided as a loan or other payment said to be non-taxable. This instrument establishes a settlement scheme that allows eligible people to resolve outstanding loan charge liabilities with HMRC on defined terms.

4.2 Finance Act 2026 makes provision for a new settlement scheme for people liable to the loan charge who are yet to settle and pay their liabilities to HMRC. The legislation sets out the scope of that scheme, including those eligible for it and the amounts of tax and National Insurance contributions ("NICs") HMRC must forgo under it.

4.3 This instrument sets out the terms and conditions of the scheme requiring HMRC to administer it, in accordance with the primary legislation.

Where does the legislation extend to, and apply?

4.4 The extent of this instrument (that is, the jurisdiction(s) in which the instrument forms part of the law) is the United Kingdom.

4.5 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 Disguised remuneration schemes are tax avoidance schemes that seek to avoid income tax and NICs by disguising income as another form of payment, which is claimed to be non-taxable (typically a loan).

5.2 The loan charge was announced at Budget 2016 and introduced into law through Finance (No.2) Act 2017. Its purpose was to tackle the historical use of these schemes. The loan charge applies to disguised remuneration loans received between December 2010 and April 2019.

5.3 In January 2025 the government commissioned a new independent review of the loan charge.

5.4 The purpose of the review was to bring the matter to a close for people who have not settled and paid their loan charge liabilities. The review's focus was on taking action to help those individuals who do not yet have certainty about their liabilities, or who still owe money, to move on from the matter. The review identified affordability as a key barrier preventing some individuals from settling and made recommendations to remove this barrier.

5.5 The review's report was published at Budget 2025, alongside the government's response. The review recommended that the government introduce a settlement opportunity to encourage those who have not settled their avoidance with HMRC to do so. The government introduced legislation in Finance Act 2026 giving HM Treasury the power to establish the new settlement scheme.

5.6 This instrument establishes the new loan charge settlement opportunity. This settlement opportunity will remove barriers to settlement and encourage those who have not yet settled and paid their loan charge liabilities with HMRC to do so.

What was the previous policy, how is this different?

5.7 The loan charge is a tax charge on disguised remuneration loans that were outstanding on 5 April 2019. It works by aggregating those outstanding loans and treating them as income arising in the 2018-19 tax year.

5.8 The new settlement opportunity will allow people to settle their loan charge liabilities with HMRC on concessionary terms. Under the terms of the settlement opportunity, everyone who comes forward will see a £5,000 reduction in their outstanding liabilities. They will also be able to offset a proportion of the fees assumed to have been paid to the promoters of the schemes against their liabilities. HMRC will forgo late payment interest. The maximum deduction will be £70,000. In addition, HMRC will not collect any inheritance tax that has arisen from the use of trust structures and will only charge penalties in egregious cases.

6. Legislative and Legal Context

How has the law changed?

6.1 This instrument establishes the new loan charge settlement opportunity under the administration of the Commissioners of Revenue and Customs. The new opportunity provides for significant reductions in tax due under the existing loan charge legislation. This instrument therefore provides the power for the Commissioners to forgo the collection of these amounts.

6.2 The instrument makes the Commissioners responsible for the operation of the Scheme and there are various elements of discretion in the Regulations which the Commissioners may exercise. In addition to the principal powers in sections 25 to 27 of the Finance Act 2026 used, this provision is made under powers in section 27(1)(i), section 27(5)(b) as provision generally or for specified cases, and section 27(5)(d) of that Act, as incidental, supplementary and consequential provision.

6.3 In general, the Scheme is anticipated to apply to the individual affairs of around 37,000 UK taxpayers, not all of whom will be in identical circumstances. It would be impossible, and inappropriate, for anyone other than the Commissioners to address these matters and they will require some operational flexibility within the purposes of the statutory regime, and the obligations it imposes on them, in how they do so, particularly when the Scheme will operate in the context of the Commissioners' ordinary collection functions.

6.4 Moreover, specific powers, such as those providing for the process of making offers and entering into agreements (section 25(3)(b) on the duration of offers, and 27(1)(a)), for conditions (including relating to the settlement of additional qualifying amounts as they are specified in regulation 12, see section 27(1)(b) and (2)), or for estimates (section 27(1)(f)), will have to be exercised on a case by case basis and are likely to require access to or consideration of confidential taxpayer information. It is considered by HM Treasury appropriate that the Commissioners do so in line with the overall purpose of the Scheme (section 27(1)(i)).

6.5 These Regulations are the first use of the powers in sections 25 to 27 Finance Act 2026.

6.6 Regulation 7 establishes the new loan charge settlement scheme.

6.7 Regulation 8 requires the Commissioners for Revenue and Customs to make a settlement offer to eligible persons.

6.8 Regulation 10 sets out how a settlement amount must be calculated by HMRC, unless Regulation 11 applies. Regulation 11 makes provision for the calculation of settlement amounts for corporate employers.

6.9 Regulation 13(3) ensures that late payment interest is payable on settlement amounts and additional qualifying amounts as sums due to HMRC, see section 101(1) of the Finance Act 2009.

6.10 Regulation 14 provides that loan charge amounts paid by a person prior to accepting an offer under the Scheme may be credited against their liability to pay their settlement amount. Any excess will not be refunded or used as a credit in relation to any other liability, except (at the Commissioners' discretion) in the case of a payment on account or a payment made under section 55 or 56 of the Taxes Management Act 1970 or Part 1 of Schedule 2 to the National Insurance Contributions Act 2015.It is made under section 27(1)(h), and section 27(5)(d), as supplementary provision to that first power. HM Treasury also consider it appropriate for the purpose of the Scheme for the reasons stated in this paragraph (section 27(1)(i)).

6.11 Regulation 15 provides for any inheritance tax liabilities that have arisen from the use of trust structures as part of disguised remuneration arrangements to be written off.

Why was this approach taken to change the law?

6.12 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 The government has not conducted a consultation on this issue. Instead, the government commissioned an independent review of the loan charge on 23 January 2025. The review was led by an independent reviewer.

7.2 The overarching objectives of the review were to: bring the matter to a close for those affected; ensure fairness for all taxpayers; and ensure that appropriate support is in place for those subject to the loan charge. The review examined the barriers preventing those subject to the loan charge who have not already settled and paid their tax liabilities in full from reaching resolution with HMRC. The review concluded that affordability was a key barrier and made recommendations to reduce that barrier.

7.3 As part of the review process, the independent reviewer consulted with stakeholders and undertook a call for evidence exercise.

7.4 The government accepted all but one of the review's recommendations and is legislating through this instrument to establish a new settlement scheme.

7.5 The review, alongside the government's response, can be found on GOV.UK[1].

8. Applicable Guidance

8.1 HMRC has published guidance which can be found on the GOV.UK website[2].

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument was published on 26 November 2025 and can be found on the GOV.UK website[3].

Impact on businesses, charities and voluntary bodies

9.2 There is a beneficial impact on business, charities or voluntary bodies because the approximately 5,000 employers anticipated to be eligible for the settlement opportunity will see a reduction in their tax liabilities where they choose to take advantage of the opportunity. The businesses likely to be affected will be the small number of businesses that used disguised remuneration schemes to reward directors, key employees, or where the owners attempted to extract funds from their companies without paying the right amount of tax.

9.3 The legislation does impact small or micro businesses.

9.4 Micro businesses that used disguised remuneration schemes to reward directors and key employees will be able to benefit from the new settlement opportunity.

9.5 There is no, or no significant, impact on the public sector because the collection and management of tax is already a core function of HMRC.

[1] Independent Review of the Loan Charge: https://www.gov.uk/government/publications/independent-review-of-the-loan-charge

[2] Guidance: https://www.gov.uk/government/publications/hmrc-issue-briefing-operational-activity-following-the-new-independent-review-of-the-loan-charge/hmrc-loan-charge-review-technical-note

[3] Tax Information and Impact Note: https://www.gov.uk/government/publications/loan-charge-independent-review/loan-charge-review

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is through normal audit activity and regular communication with affected taxpayer groups.

10.2 The instrument does not include a statutory review clause.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").