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HMRC proposes expanded reporting for close company shareholder transactions

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Many of our clients and readers will be familiar with the “loan to participator” rules. These rules apply to loans made by close companies, which in general terms are companies which are controlled by five or fewer participators (or by any number of participators who are also shareholders), to their participators. The word “participator” includes shareholders and other holders of certain interests, including some creditors. Companies with private capital investment are often close because partners in a partnership can be treated as connected with each other for these purposes.

Where the loan to participator rules apply, a tax charge of 33.75% (increasing to 35.75% from 6 April 2026) arises when the loan in question remains outstanding more than 9 months after the end of the accounting period in which the loan was made. Although the tax charge is refundable when the loan is released or written off, these rules can cause significant cash flow issues for impacted businesses, and writing off loans can also trigger income tax charges for the borrowers concerned.

The UK government has now launched a consultation on proposals to require close companies to report payments made to and other transactions involving their participators. The proposals form part of HMRC’s wider efforts to modernise tax administration and close the tax gap in respect of smaller businesses.

Scope of the consultation

There is currently no specific reporting regime for close company transactions, with transactions instead being disclosable as part of ordinary course corporation tax reporting.

This consultation, first announced as part of the Autumn 2025 Budget, seeks views on a specific reporting regime for loans to participators and certain other transactions between close companies and their participators, including:

- sales and purchases of assets between the company and participators;
- dividends or other distributions; and
- other payments and other transfers of value.

The consultation additionallyconsiders whether further information should be reportable in connection with loan to participator tax reclaims, which may require companies to provide further detail on the timing and amounts of any loan repayments, releases and write offs.

Key considerations

While still at an early stage, a number of points will be particularly relevant for close companies:

1. *Scope of application:* the consultation does not specify how broadly the regime will apply, and seeks views on the scope of reportable transactions and any potential exclusions, as well as the method and frequency of reporting requirements.
2. *Compliance framework:* HMRC currently expect that the normal corporation tax penalty regime will apply to reporting errors or omissions but is considering whether specific penalties will apply.
3. *Administrative impact:* in practice, companies may need to implement systems and processes to identify, track and report participator transactions, although those well-advised will already be doing so.

Next steps

The consultation is open for responses until 10 June 2026, with draft legislation expected following stakeholder feedback. We will keep clients and readers informed of future developments.

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