SUMER
NORTHERN IRELAND

January 2026 Tax News

Making Tax Digital for Income Tax - Update

Making Tax Digital (MTD) for income tax will be mandated for a large group of self assessment taxpayers from 6 April 2026, with even more individuals being mandated in 2027 and 2028. The following MTD for income tax measures were announced at Budget 2025:

Let’s start with some good news! The government has announced that late filing penalties will not be issued in respect of quarterly updates in 2026/27. This easement will not apply to the 2026/27 annual tax return, which must be filed by 31 January 2028. All quarterly updates must be submitted before the annual tax return can be filed.

We had previously been told that taxpayers who currently report income on the SA109 self assessment page (residence, remittance basis etc) will not need to comply with the MTD rules until April 2027. Budget 2025 included a list of even more types of taxpayer who will be deferred until April 2027:

Recipients of trust and estates income,
Individuals who use averaging adjustments (e.g. farmers and creative artists),
Recipients of qualifying care income, and
Non-UK resident foreign entertainers or sportspeople.
Taxpayers who are under deputyship will also be exempt from MTD for income tax.

EMPLOYEES' WORKING FROM HOME EXPENSES

From 6 April 2026, employees will no longer be able to claim a tax deduction from their earnings in respect of expenses incurred while working from home. Historically, some home-working employees have claimed a flat-rate deduction of £6 per week or the actual costs of working from home, if higher.

The government has said that such relief will be abolished because too many people are claiming the deduction when they are not entitled to it.

Employers will still be able to reimburse home-working expenses to employees free of PAYE tax and national insurance contributions, but only if those expenses are wholly, exclusively and necessarily incurred as a result of their employment duties. This is a high bar to cross – it generally means that the employee's contract requires them to work from home. Employees who choose to work from home will not qualify for tax-free reimbursement.

MANDATORY PAYROLLING OF BENEFITS IN KIND FROM APRIL 2027

From April 2027 it will be mandatory for employers to include most benefits in kind (BiKs) provided to employees in their payroll.

All BiKs will need to be payrolled except employer provided living accommodation and interest free and low interest (beneficial) loans. It will be possible to payroll these two BiKs on a voluntary basis.

Early preparation can ensure a smooth transition to the new system with minimal disruption, cost, and impact on employees. Employers are also reminded not to underestimate the time it will take to ensure payroll processes are robust enough to handle real time reporting of BiKs.

We can help you with the switch to payrolling BiKs, but it's important that your employees are made aware of the changes to how their BiKs will be taxed from April 2027. Early communication will be key to enable them to understand how this might affect their tax codes and take-home pay.

It is important that you explain that:

- Employees who are currently paying tax in arrears on their BiKs will not be doing so from April 2027 onwards – many employees may not realise that this is how they were paying tax on their BiKs, and that they will be paying tax on their BiKs in the year that they receive them.

MANDATORY PAYROLLING OF BENEFITS IN KIND FROM APRIL 2027

- They may currently have a deduction in their tax code so that they pay tax on an estimated BiK – this will no longer be the case from April 2027.
- Tax on BiKs will have to be paid in real time in the year that they are received.

If the move to payrolling BiKs will affect you and your employees, please speak to us. We will be happy to help you switch to the new process.

Where an employee is also paying tax on a BiK provided in a previous year, from April 2027 it might seem to them that they are paying tax twice on the BiK. You might need to explain that they will be paying tax in real time on the BiKs they receive for that year whilst also catching up with payment of tax for the BiKs from the previous years.

WHAT IS E-INVOICING?

Over the coming years we will be hearing a lot more about e-invoicing because the government has confirmed that it will be mandated for VAT invoices from 2029. It believes that growth, administrative benefits and increased revenue can be optimally achieved by the introduction of e-invoicing.

Electronic invoicing or ‘e-invoicing’ is the digital exchange of invoice data between a buyer and a supplier’s financial systems. An e-invoice is not just a digital photograph or an email attachment – it will require both the supplier and customer to have compatible software so that data in prescribed fields can be transmitted from one to the other.

At Budget 2025 the government announced that in 2029, business-to-business (B2B) and business-to-government (B2G) VAT e-invoices will be mandatory. They also confirmed that real-time reporting of e-invoices to HMRC will also be mandated in future, although this will occur after 2029.

The government plans to announce a detailed roadmap implementing mandatory e-invoicing for VAT at Budget 2026.

WHY DID THE CHICKEN GO TO THE VAT TRIBUNAL?

In WM Morrison Supermarkets v HMRC, the first tier tribunal (FTT) found that rotisserie chickens were a supply in the course of catering and therefore subject to VAT at 20%.

VAT legislation zero-rates supplies of food, but supplies of catering are excluded from the zero-rating. 'Catering' includes supplies of hot takeaway food but not cold. 'Hot takeaway food' is also defined and includes any food that is kept hot after it has been heated, be it on hot plates, under heat lamps or in packaging that retains heat. This is why it is possible to buy a VAT-free hot pie or pasty; if they are neither cooked to order nor kept warm, they can be zero-rated straight out of the oven!

Any takeaway food that is advertised or marketed in a way that indicates that it is supplied hot will also be subject to VAT at 20%.

Morrisons appealed to the FTT against VAT assessments totalling £17,034,932.

They argued that their rotisserie chickens were cold takeaway food and were therefore zero-rated. HMRC argued that the chickens met several of the conditions for standard-rating.

The FTT found that the chickens were not advertised or marketed as hot food but they were kept in packaging

WHY DID THE CHICKEN GO TO THE VAT TRIBUNAL?

that retained heat. Morrisons claimed that the plastic-lined chicken bags were merely designed to contain chicken juice, but it was found that in the packaging a tightly-wrapped chicken would cool by 47.06% after 2 hours, compared with a 62.59% temperature drop for an unwrapped chicken over the same time period.

The chickens were therefore hot takeaway food and a standard-rated supply of catering.

This case demonstrates the complexities involved in establishing the VAT rating of some supplies. If you have any questions about charging VAT on your goods or services please get in touch with us.

ADVISORY FUEL RATES FOR COMPANY CARS

The table below sets out the HMRC advisory fuel rates from 1 December 2025. These are the suggested reimbursement rates for employees' private mileage using their company car.

Where the employer does not pay for any fuel for the company car, these are the amounts that can be reimbursed in respect of business journeys without the amount being taxable on the employee.

Engine Size	Petrol	Diesel	LPG
1400cc or less	12p (12p)		11p (11p)
1600cc or less		12p (12p)	
1401cc to 2000cc	14p (14p)		13p (13p)
1601 to 2000cc		13p (13p)	
Over 2000cc	22p (22p)	18p (18p)	21p (21p)

ADVISORY FUEL RATES FOR COMPANY CARS

You can also continue to use the previous rates for up to 1 month from the date the new rates apply.

Note that for hybrid cars, you must use the petrol or diesel rate.

For fully electric vehicles the rate is 7p (8p) per mile where the vehicle is charged at home. The rate applicable to vehicles charged using public facilities is 14p (14p) per mile.

Employees using their own cars

For employees using their own cars for business purposes, the Advisory Mileage Allowance Payment (AMAP) tax-free reimbursement rate continues to be 45p per mile (plus 5p per passenger) for the first 10,000 business miles, reducing to 25p per mile thereafter. Note that for NIC purposes the employer can continue to reimburse at the 45p rate as the 10,000 mile threshold does not apply.

Input VAT

Within the 45p/25p AMAP payments, the amounts in the above table represent the fuel element. The employer is able to reclaim 20/120 of the fuel amount as input VAT provided the claim is supported by a VAT invoice from the filling station. For a 1300cc petrol-engine car, 2 pence per mile can be reclaimed as input VAT (12p x 1/6).

Main Tax events January/February 2026

1 Jan - Corporation Tax for year to 31/03/2025, unless quarterly instalments apply

19 Jan - PAYE & NIC deductions, and CIS return and tax, for month to 05/01/2026 (due 22/01 if you pay electronically)

31 Jan - Deadline for filing 2024/25 self-assessment tax return online and paying your outstanding tax for 2024/25 and first payment on account of 2025/26 tax

1 Feb - Corporation Tax for year to 30/04/2025, unless quarterly instalments apply

19 Feb - PAYE & NIC deductions, and CIS return and tax, for month to 05/02/2026 (due 22/02 if you pay electronically)

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