Finance Bill 2025-26: clauses 13 to 27 – employment taxes measures

Employment Tax | Personal tax

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The ATT, CIOT and LITRG submitted briefings on the employment taxes measures in the Finance Bill. The measures included employee reliefs (clauses 13 to 16), company car and van ownership schemes (clauses 17 to 19) and other employment income issues (clauses 20 to 27).

Employee reliefs

The Finance Bill proposes the following measures:

- increases to the Enterprise Management Incentives (EMI) scheme limits;
- increases in the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) annual and lifetime investment limits;
- a reduction in income tax relief for VCT investments; and

- allowing existing Company Share Option Plan (CSOP) and EMI option agreements to be varied to include a Private Intermittent Securities and Capital Exchange System (PISCES) trading event as an exercisable event, without jeopardising the tax-advantaged status. PISCES is a new, regulated stock market for private company shares.

The EMI, EIS and VCT changes will apply with effect from 6 April 2026, and the PISCES change applies to CSOP and EMI share options granted before 6 April 2028, as long as the relevant conditions are met.

Company car and van ownership scheme

The Finance Bill amends the rules for a vehicle to be classed as a taxable benefit-in-kind to include vehicles provided via Employee Car Ownership Schemes (ECOS). This change has effect from 6 April 2030, with transitional provisions for existing arrangements.

The Bill also introduces an exception to the rules for a vehicle to be classed as a taxable benefit-in-kind where the vehicle is sold or leased by an employer in the motor industry to their employee on arm’s length terms. This change has effect from 6 April 2026.

Additionally, the Bill amends the CO_2 emission figure to be used for certain vehicles registered under new emission standards and deems the CO_2 figure to be 1 g/km for plug-in hybrid electric vehicles registered under those new standards. This change has retrospective effect from 1 January 2025.

Other employment income issues

The Finance Bill extends the ability for employers to pay for eye tests, related special corrective appliances, home working equipment and flu vaccinations without income tax or National Insurance implications. The new legislation will extend existing relief to cases where employees are reimbursed, as well as where the expenditure is arranged by the employer.

A new restriction is included that will prevent employees claiming tax relief for additional household expenses incurred as a result of working from home. This is in

response to HMRC feedback that more than half of claims by employees have not been eligible, for instance where the employee chooses to work from home for part of their working week. No changes are being made to the ability of employers to reimburse payments to employees working from home.

The Bill also introduces new provisions to confirm that payments for cancelled, moved or curtailed shifts are earnings for income tax purposes, and clarifies when payments for duties not performed made to non-UK residents should be treated as relating to UK duties or overseas duties.

This part of the Finance Bill also establishes joint and several liability for umbrella company supply chains and the new loan charge settlement scheme.

ATT representations

In the briefing on clause 16 (CSOP schemes and EMI: PISCES shares), we raised concerns about the arbitrary cut-off date of 5 April 2028 in the legislation. Under the original drafting, CSOP and EMI options granted on or before this date may be varied to permit exercise on a PISCES trading event without loss of tax-advantaged status, while otherwise identical options granted from 6 April 2028 onwards would be likely to lose that status if varied in the same way.

We recommended that the cut-off date be extended to at least 6 April 2030, as PISCES is not expected to become permanent until 2030. While this would still involve a cut-off date, it would better align with the government's policy objectives and allow time for awareness of PISCES to grow.

The full ATT briefing is available here.

In the briefing on clauses 20 and 21 (Employment income exemptions and disallowing homeworking expenses), we welcomed the extension of income tax and National insurance treatment for home working equipment, eye tests and related special corrective appliances, and flu vaccinations. The new approach will provide consistency in treatment, regardless of whether the expenditure has been arranged by the employer or the employee has been reimbursed.

However, we would like to see the exemption for flu vaccinations extended to include COVID vaccines. As COVID vaccines often cost more than flu vaccines, the

trivial benefits exemption (which sets a £50 limit) is unlikely to be available in most cases. By expanding the exemption to include COVID vaccines, we believe this could encourage employers to offer them to employees, which may reduce workplace absences.

We welcomed the continued ability for employers to reimburse genuine additional homeworking costs without income tax or National Insurance implications. However, it was felt that the £6 per week fixed-rate allowance that can be paid does not take account of increases in household costs, particularly energy costs, since April 2020.

The full ATT briefing is available here.

CIOT representations

In our briefing, we welcomed the increases in the limits for EMI options granted in Great Britain (clause 13) but raised concerns regarding the wording of a new paragraph 37A, which is intended to extend the eligibility period of eligible options granted before 6 April 2026 from 10 to 15 years.

HMRC have since written to us to clarify that the policy intent is to allow EMI options that had a 10-year exercise period to be extended to 15 years, provided the option had not lapsed, expired or been exercised, and is exercised on or after 6 April 2026. They accepted that the new paragraph 37A applies a fixed time-based requirement, which could be seen to make the 15-year extension less meaningful for exit-based options, and explained that paragraph 37A is expressed to relate only to ‘fixed-date qualifying options’ because it is not necessary for it to extend to other qualifying options in existence on 6 April 2026. This is because HMRC’s position is that an extension to the lapse date or last date of exercise does not constitute a change to the fundamental terms of an EMI option, except in fixed-date option situations, so new legislation such as paragraph 37A is not required in these scenarios.

Clause 17 (ECOS arrangements) addresses HMRC’s concerns that some ECOS arrangements distort the line between ordinary commercial arrangements for acquiring a vehicle and the provision of a company car or van, with the result that vehicles provided through these arrangements will be deemed taxable benefits-in-kind when previously they were not treated as such. We noted the economic impact this change could have and welcomed the deferral to 2030 and the inclusion of transitional provisions.

We also welcome clause 18, which addresses some of the concerns we had with the draft ECOS legislation published last summer. The clause excludes arm's length transactions from potentially being treated as the provision of a company car or van.

We also welcomed the introduction of the exemptions for home working equipment, eye tests and related special corrective appliances, and flu vaccinations (clause 20). We have previously recommended introducing these changes and are pleased to see the government acting to remove from taxation the low-value benefits that are a common part of modern working life. We recommended a review of other benefit-in-kind exemptions that distinguish between employer provision and employer reimbursement, and so far as is practical the removal of those distinctions.

On the disallowance of a deduction from earnings for additional household expenses, we were aligned with our LITRG colleagues in believing that the relief should be retained, with changes made to ensure it is easier for employees to understand when they can claim the relief and for HMRC to administer claims. We also suggested consulting on the entire employee expenses framework to gather broad input from experts, businesses and the public before any further decisions are made in this area, with a view to aligning the tax treatment of reimbursed and unreimbursed expenses to improve fairness and cohesion in the system.

As regards clause 24 (umbrella companies), we noted that the legislation responded to concerns raised by LITRG in a March 2021 report on labour market intermediaries. While we welcomed action in this area, we had two major concerns with the legislation. Firstly, there are no safeguards; HMRC can simply transfer liability to the agency regardless of the circumstances. Secondly, the broad definition of a 'purported umbrella company', which we understand was intended to address an emerging risk around Elective Deductions Model arrangements being used to circumvent the joint and several liability, being introduced for umbrella companies.

We also requested clarity regarding the priority of application of the various Chapters within Part 2 of ITEPA 2003.

Our briefing welcomed the adoption of the recommendations from the McCann review into the loan charge (clauses 25 to 27). We also recognised that there is a wide range of opinions regarding the loan charge – including whether it should apply at all and, if so, on what terms – and that there is no perfect solution. We were aligned with LITRG in raising concerns that key groups would be excluded from the

new settlement terms and encouraged HMRC and the government to extend the new loan charge settlement opportunity to cover all loan charge-related cases.

The full CIOT briefing is available here.

LITRG representations

In our briefing on homeworking expenses, LITRG highlighted that abolishing the deduction creates potential unfairness, especially for lower-paid workers who are less likely to be reimbursed and least able to absorb rising household costs. We said the relief should remain, and changes made to simplify it for taxpayers and HMRC.

The full LITRG briefing is available here.

LITRG's briefing on clause 25 raised concerns that key groups were excluded from the new loan charge settlement scheme: those who have already settled their liabilities, and individuals with loans outside the 2010–2019 loan-charge years, including many lower-paid agency workers. We argued that this risks unfairness and recommended widening the definition of 'loan charge amount' and scope to include similar cases outside the current timeframe.

The full LITRG briefing is available here.

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