TAXANGLES from COMPASS ACCOUNTANTS

A newsletter for proactive planning...

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Approved mileage allowance payments

The approved mileage allowance payments (AMAP) system allows employers to make tax-free mileage allowance payments to employees who use their own vehicles for work.

The payment is tax-free as long as it does not exceed the ‘approved amount’. This is the number of business miles in the tax year multiplied by the approved rate for the vehicle in question. Different rates are set for cars and vans, motorcycles and cycles. Additionally, for cars and vans there are two rates – a higher rate for the first 10,000 business miles in the year and a lower rate for any further business miles in the tax year.

In light of the fuel price rises as a result of the Iran war, the rate for the first 10,000 business miles in a car or a van was increased from 45p per mile to 55p per mile for 2026/27. The other rates were unchanged. Consequently, the approved mileage rates for the 2026/27 tax year are as follows:

Cars and Vans	Rate
First 10,000 business miles	55p per mile
Subsequent business miles	25p per mile
Motorbikes	24p per mile
Cycles	20p per mile

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It is important to note that the approved amount is calculated for the tax year as a whole, rather than for each individual journey.

Payments not exceeding the approved amount

As long as the payment does not exceed the approved amount, the payment can be made tax-free.
If the amount paid is less than the approved amount, the employee can claim tax relief for the shortfall.

Example 1

Andy uses his own car for business and drives 15,000 business miles in the 2026/27 tax year. His employer pays a mileage rate of 45p per mile for all business miles. Andy receives a mileage payment of £6,750 (15,000 miles @ 45p per mile).

The approved amount is also £6,750 ((10,000 miles @ 55p per mile) + (5,000 miles @ 25p per mile)).
As the amount paid does not exceed the approved amount, the payment can be made tax-free.

Example 2

Ben uses his car for business journeys. He drives 6,000 business miles in the 2026/27 tax year. His employer pays a mileage rate of 50p per mile. Ben receives a mileage payment of £3,000. The approved amount for 2026/27 is £3,300 (6,000 miles @ 55p per mile).

In this case, the mileage payment made to Ben of £3,000 is less than the approved amount of £3,300. Ben can claim tax relief for the shortfall. Where employers have not increased their rates in line with the increase in the approved rate, employees may be entitled to tax relief.

Amount paid exceeds the approved rate

The approved amount is the maximum amount that can be paid tax-free, even if it is possible to demonstrate that actual costs exceed the approved amount.Where the amount paid exceeds the approved amount, the excess is taxable.

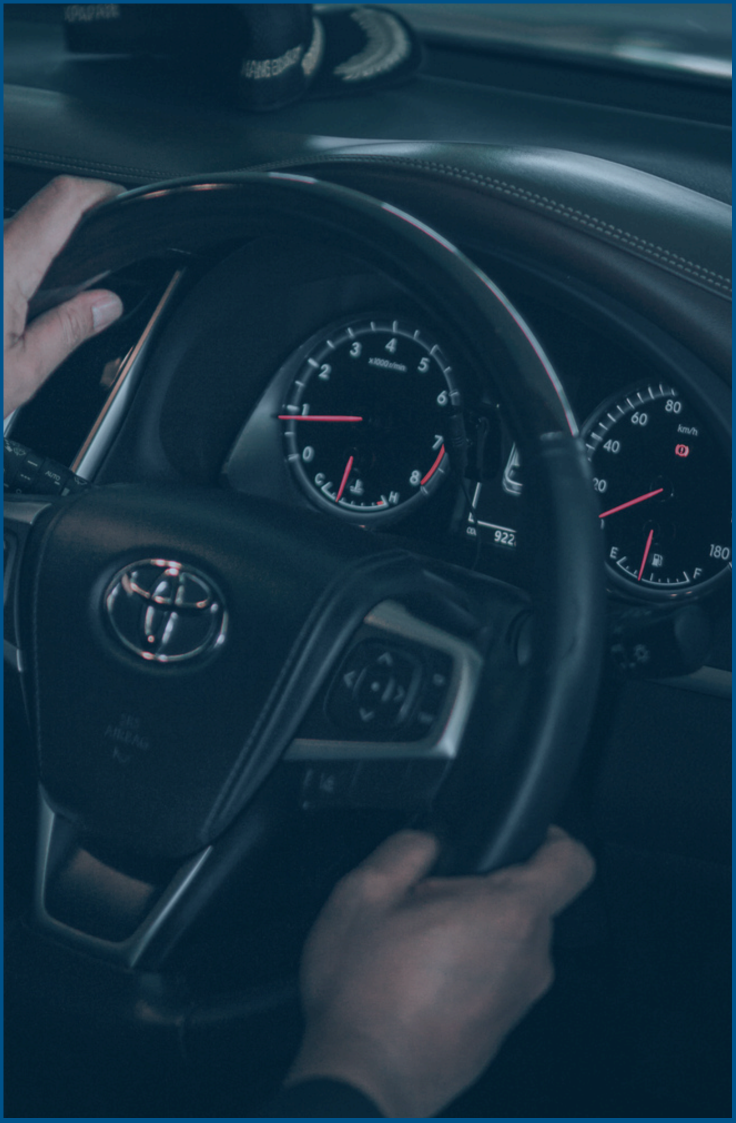
Example 3

Callum uses his own van for work. His employer makes mileage payments for business travel at the rate of 55p per mile for all business mileage. In 2026/27, Callum uses his own van for 25,000 business miles. He receives mileage payments of £13,750 (25,000 miles @ 55p per mile). The approved amount is £9,250 ((10,000 miles @ 55p per mile) + (15,000 miles @ 25p per mile)).

As the amount paid exceeds the approved amount, Callum is taxed on the excess of £4,500.

National Insurance

A similar system applies for National Insurance, except that the higher rate for cars and vans (55p per mile for 2026/27) applies to all business miles in the tax year, not just the first 10,000. This means that while there is a tax liability in example 3 above, there will be no National Insurance to pay.



How is relief given for pension contributions?

Pension contributions benefit from tax relief. However, the amount of the relief is capped at the lower of 100% of earnings (or £3,600 where this is higher) and the available annual allowance.

Annual allowance

The annual allowance is set at £60,000 for 2026/27. However, it is reduced where both adjusted net income exceeds £260,000 and threshold income (broadly income excluding pension contributions) exceeds £200,000, by £1 for every £2 by which adjusted net income exceeds £260,000 until the minimum allowance for the year is reached. This is set at £10,000 for 2026/27. Once the current year's allowance has been used up, unused allowances from the previous three years can be used, with an earlier year's available allowance used before a later year.

Employer contributions

Employer contributions count towards the annual allowance but are not subject to the 100% of earnings cap.

Methods of tax relief

Individuals benefit from tax relief at their marginal rate of tax on pension contributions that they make up to the permitted limits. There are two methods by which relief may be given – under a net pay arrangement or under a relief at source arrangement.

Relief at source

Under a relief at source arrangement, an employer takes an employee's pension contribution from their net pay. The amount paid to the pension provider is net of basic rate tax. The pension provider reclaims the basic rate of tax from HMRC. If the employee pays tax at the higher or additional rates, they will need to claim relief for the difference between the rate at which they pay tax and the basic rate in their Self-Assessment tax return.

Example

David is a higher rate taxpayer. He pays into a personal pension and his employer deducts pension contributions of £300 a month from his net pay (£3,600 a year).

This is paid net of basic rate tax and equivalent to a gross contribution of £4,500. The pension provider claims an amount equal to the basic rate (£900) from HMRC. As a higher rate taxpayer, David is entitled to relief at 40%. This is worth £1,800. He has received relief of £900 from HMRC. He can claim relief for the remaining £900 in his Self-Assessment tax return. The contribution of £4,500 costs him £2,700 (the £3,600 deducted from his pay, less the further relief of £900 claimed in his tax return).

Net pay

Under a net pay arrangement, a pension contribution is deducted from a person's gross pay (before applying PAYE). In this way, relief is given at their marginal rate of tax, and there is no need to claim relief through Self-Assessment. This method is usually used by workplace pensions.

Phased introduction of mandatory payrolling

Mandatory payrolling was due to come into effect from 6 April 2027. However, it has now been announced that the introduction will be phased in, with mandatory payrolling only applying to benefits in kind in phase one from 6 April 2027, with all remaining benefits in kind (with the exception of taxable cheap loans and living accommodation benefits) being brought within mandatory payrolling from 6 April 2028. From the same date, employers will be able to opt to payroll taxable cheap loans and living accommodation benefits if they register to do so before the start of the 2027/28 tax year. These benefits are to be brought within mandatory payrolling from a later date.

Nature of payrolling

Under payrolling, the taxable amount of a benefit in kind is treated like extra pay which is paid to the employee with the same frequency as their cash pay. For example, if a monthly paid employee receives medical insurance with a cash equivalent value of £600, the employee's gross pay for PAYE purposes each month would include £50 in respect of the medical insurance benefit. Tax is worked out on the total gross pay in the pay period and deducted from the employee's cash pay. As most benefits in kind are within Class 1A National Insurance, rather than Class 1, the payrolled benefit is not included in gross pay for National Insurance purposes.

Phase one

Mandatory payrolling is phased in from 6 April 2027. From that date it will apply to:

·company cars;
·car fuel;
·company vans;
·van fuel; and
·medical benefits.

Employers must payroll these benefits from that date. For 2027/28, payrolling is optional for other benefits in kind including taxable cheap loans and living accommodation benefits. There is no need to register benefits for which payrolling is mandatory. However, where a benefit is to be payrolled voluntarily in 2027/28, it must be registered for payrolling before the start of that tax year.

Phase two

From 6 April 2028, mandatory payrolling is extended to all other benefits in kind with the exception of taxable cheap

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loans and living accommodation benefits from 6 April 2028 (however, employers will be able to opt to payroll these voluntarily as long as they are registered for payrolling before the start of the new tax year).

Class 1A National Insurance

For 2026/27 and earlier tax years, Class 1A National Insurance is included in the Class 1A National Insurance calculation on the P11D(b). The liability is paid in a single lump sum after the end of the tax year. Payment must be made by 22 July following the end of the tax year where payment is made electronically or by 19 July if payment is made by cheque.

However, under mandatory payrolling, the associated Class 1A National Insurance will be reported through Real Time Information on the Full Payment Submission each month and paid over to HMRC with the PAYE and Class 1 National Insurance for the month. This will bring forward the payment date and may have cashflow implications for employers.

During the move to in-year collection, employers may pay some Class 1A National Insurance monthly and some after the end of the tax year.

Impact on P11D and P11D(b)

Where a benefit is payrolled, it is not reported on the P11D. The introduction of mandatory payrolling will render the P11D obsolete. For 2028/29 and later tax years, it will only be used to report taxable cheap loans and living accommodation where the employer has not opted to payroll these.

As noted above, under mandatory payrolling, Class 1A National Insurance contributions are reported and paid in-year. This will mean that benefits in kind within mandatory payrolling will not be included in the Class 1A calculation on the P11D(b). For 2028/29 and later tax years, the P11D(b) will only be used to calculate the Class 1A National Insurance liability on taxable cheap loans and living accommodation benefits where these are not payrolled.

How to reduce your employer's Class 1 National Insurance bill

Employer's Class 1 National Insurance is a significant cost for employers, being charged at 15% on earnings over the relevant threshold. However, there are some steps that employers can take to reduce their bill.

Claim the Employment Allowance

The Employment Allowance is a valuable allowance which reduces an employer's secondary Class 1 bill by up to £10,500 a year. The allowance is capped at the employer's secondary Class 1 liability for the year where this is less than £10,500.

The allowance is not given automatically and for eligible employers to be able to benefit from it, they need to claim it. This can be done through their payroll software.

The allowance is not available to companies where the sole employee paid above the secondary threshold is also a director, rendering many personal companies ineligible. However, consideration could be given to perhaps changing the director to a spouse or civil partner or taking on a second employee and paying them above the secondary threshold (set at £96 per week).

Employ part-time workers

Employers pay secondary Class 1 National Insurance on employees' earnings above the secondary threshold. By employing more part-time workers and less full-time workers, the employer is able to benefit from additional secondary thresholds, reducing their overall bill.

Example

An employer employs a full-time worker who is paid £4,000 a month. None of the higher secondary thresholds apply. The employer pays secondary

Class 1 National Insurance of £537.45 a month (15% (£4,000 – £417)).
If instead the employer employed two part-time workers, paying them each £2,000 a month, the employer would pay secondary Class 1 National insurance of £237.45 a month for each employee (15% (£2,000 – £417)) – a total monthly bill of £474.90. By employing two part-time workers rather than one full-time worker, the employer saves £62.55 a month (15% of the monthly secondary threshold of £417). This is an annual saving of £750.60.

Employ workers under the age of 21

A higher secondary threshold – the upper secondary threshold for under 21s – applies where the worker is under 21. For 2026/27, it is set at £967 per week, £4,189 per month and £50,270 per year. Employer contributions (at 15%) are only payable on earnings in excess of the threshold. Employing a worker under 21 rather than one over 21 can reduce the employer's secondary Class 1 bill by up to £6,790.50 a year.

Employ apprentices

A higher secondary threshold also applies in respect of the earnings of apprentices under the age of 25. The apprentice upper secondary threshold (AUST) is set at £967 per week, £4,189 per month and £50,270 a year for 2026/27. Taking on apprentices can be beneficial for the business and reduce the employer's National Insurance bill. However, the apprentice must meet the statutory definition in the National Insurance legislation for the AUST to be available.

Employ armed service veterans

Taking on an armed forces veteran can also pay. A higher secondary threshold, the veterans upper secondary threshold, applies to the earnings of an armed forces veteran in the first 12 months of employment since leaving the armed forces. It is available for 2026/27 and is set at £967 per week, £4,189 per month and £50,270 a year.

Relocate to a Freeport or an Investment Zone

Employers whose businesses are located in a Freeport or an Investment Zone benefit from a range of tax incentives. These include a higher secondary threshold for new employees in their first three years of employment in a Special Tax Site. The threshold is set at £481 per week, £2,083 per month and £25,000 a year.
It should also be noted that employers can deduct secondary Class 1 contributions in calculating their taxable profits.

VAT on gifts and samples

Businesses which give away free gifts or samples need to be aware of the VAT implications to ensure that they account for VAT correctly.

Gifts

Where a business makes a free gift, they do not receive any consideration in return. If input tax has been incurred in relation to that gift which can be recovered, the business must account for VAT on the cost value of the gift unless the gift is a business gift.

Business gifts

A gift is a business gift if it is made in the course of promoting the business and the business is entitled to reclaim the VAT charged as input tax. The range of items that may count as a business gift is wide, including brochures and posters to expensive executive gifts. The definition also includes long service awards and retirement gifts, items given to trade customers, thank-you gifts given to customers and prizes in free lotteries or competitions or dispensed from gaming machines.

A business does not need to account for VAT on business gifts as long as the total cost of business gifts made to the same person does not exceed £50 in any 12-month period. However, where the total cost of business gifts to the same person exceeds this limit and the business is entitled to recover the VAT incurred on the purchase as input tax, they must account for VAT on the total cost value of the gifts. Where a gift is used for business purposes by the recipient and VAT is accounted for, as a VAT invoice cannot be issued, the business must issue a tax certificate which must contain the words ‘No payment is necessary for these goods. Output tax of £X has been accounted for on the supply.’

Samples

A sample is defined for VAT purposes as ‘a specimen of a product which is intended to promote the sales of that product and which allows the characteristics and qualities of that product to be assessed without resulting in final consumption, other than where final consumption is inherent in such promotional transactions’.

Free samples are not liable to VAT. However, it should be noted that a finished item from a discontinued line does not count as a sample. Further, an item is not regarded as a sample where it is provided in greater quantities than necessary to assess its characteristics and qualities. For example, if a wine importer provided a client with a bottle of wine, HMRC would accept that it was a sample. However, the provision of a case of 12 bottles would suggest more than a sample.

TAX DIARY

AUGUST

- 1 August – Payment due of Corporation Tax for period ended 31 October 2025
- 2 August – P46 (car) forms due for the quarter ended 5 July 2026 (where benefits not payrolled)
- 7 August – The VAT return submission and payment (online) for quarter ending 30 June 2026
- 19 August – PAYE, NIC and CIS deductions due for month ending 5 August 2026 (If you pay your tax electronically the due date is 22 August 2026)
- 19 August – CIS return – payments made to the subcontractors in the month to 5 August 2026
- 31 August – Corporation Tax returns due for payment for period ending 31 August 2025

SEPTEMBER

- 1 September 2026- Corporation tax due for accounting periods ended 30 November 2025 where not payable by instalments
- 7 September 2026- VAT returns and payments due for month or quarter ended 31 July 2026
- 14 September 2026- Corporation tax instalment payments due for large companies
- 19 September 2026- CIS returns due for month ended 5 September 2026
  - EPS due for month ended 5 September 2026 so HMRC can apply a reduction on what is owed from FPS
  - PAYE, NICs, student loan deductions and CIS deductions due for month ended 5 September 2026 paid non electronically
- 20 September 2026- PAYE, NICs, student loan deductions and CIS deductions due for month ended 5 September 2026 paid electronically
- 30 September 2026- Corporation tax return due for accounting periods ended 30 September 2025

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