

## Finance Bill 2025-26

### Clause 21: Disallowing deduction from earnings for additional household expenses

#### Parliamentary representation and briefing from the Low Incomes Tax Reform Group (LITRG)

## 1 Executive Summary

- 1.1 Clause 21 of the Finance Bill removes the ability for employees to claim a deduction from earnings for working from home expenses, where they are required to work from home but **do not** receive reimbursement from their employer. This will deny those employees income tax relief on their homeworking expenses. At the same time, payments made by employers to employees to reimburse the same expenses will continue to be tax and NIC free.
- 1.2 This creates an uneven situation in which two employees with identical working arrangements and costs are treated differently for tax purposes solely on the basis of their employer's reimbursement policy. Although this change may simplify administration from HMRC's perspective, the change is likely to disadvantage low-income workers disproportionately.
- 1.3 We are of the view that the relief should remain, with changes being made to ensure it is easier for people to understand and for HMRC to administer.

## 2 Why it matters

- 2.1 Income tax relief is available for the additional household costs of working from home, for example the extra cost of gas, electricity and water (if metered) for a workspace. The amount that can be claimed as a deduction from taxable earnings can either be based on actual expenditure, with evidence, or at a fixed rate of £6 per week without providing receipts.
- 2.2 For the average basic rate taxpayer, this equates to a deduction from taxable earnings of £312, so a tax saving of £62 a year. Although modest, it offsets some of the unavoidable costs of homeworking. It is significantly less generous than employer reimbursement, but for some workers, it is the only support available.
- 2.3 Lower-paid workers are far less likely to receive employer reimbursement, as they typically have limited bargaining power. If they work in low-paying/low-margin sectors, their employers may be unable to afford reimbursement, even if they wanted to.

2.4 Lower-paid workers are also the least able to absorb increased household bills. Removing the deduction therefore places all the additional costs of homeworking onto the employees least able to bear them — a double disadvantage. Importantly, for employees receiving Universal Credit (UC), tax deductible employment expenses can also reduce their assessed income for UC purposes. Changing the tax treatment, therefore, will potentially change the UC treatment too, worsening the impact further.

### 3 Concerns about the rationale

- 3.1 To claim tax relief, you must be required to work from home<sup>1</sup>— a stricter test than simply choosing to work remotely. It can apply where a contract specifies home as the workplace or where an employer lacks available office space. Note that in 2020/21 and 2021/22 during the coronavirus pandemic, the government widened eligibility and said that where people had to work from home due to lockdowns, this also counted as being ‘required’ to work from home.
- 3.2 HMRC say this measure aims to address concerns around non-compliance and to ensure fairness across the tax system.<sup>2</sup> They say that after checking claims, over half have been deemed to be ineligible for the relief, indicating high levels of non-compliance.
- 3.3 We think this may be because some employees assumed that post-pandemic hybrid arrangements counted as being “required” to work at home. This assumption may have been encouraged by some High Volume Repayment Agents who have commercial incentives to maximise claims.
- 3.4 However, since October 2024, HMRC have asked for evidence to back up any tax refund claims related to the expenses of working from home.<sup>3</sup> HMRC have also put various measures in place to better control the activity of High Volume Repayment Agents. This significantly reduces the risk of non-compliance.
- 3.5 In relation to fairness, it is arguable that the measure actually creates unfairness. While currently those who are required to work from home are divided into two groups – those who receive reimbursement without incurring income tax or NIC and those who are not reimbursed, but who are able to claim tax relief on their unreimbursed costs – this measure exacerbates that split. It will create an even greater divide between those two groups, as those who do not receive reimbursement will not even be able to claim tax relief.

---

<sup>1</sup> <https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim32790>

<sup>2</sup> <https://www.gov.uk/government/publications/income-tax-removal-of-the-tax-relief-for-additional-homeworking-expenses/removal-of-tax-relief-on-non-reimbursed-homeworking-expenses#policy-objective>

<sup>3</sup> Acceptable evidence for expenses of working from home includes the employment contract, if this states that the claimant must work from home. <https://www.gov.uk/government/publications/hmrc-issue-briefing-evidence-required-to-claim-payee-p87-employment-expenses/evidence-required-to-claim-payee-p87-employment-expenses>

- 3.6 The measure therefore appears driven largely by administration considerations. If administrative burden is the main concern, alternative solutions — clearer guidance, better digital evidence-checking, or even - counter intuitively - widening the eligibility conditions — could achieve this without withdrawing support from low-paid workers. It is also unclear whether HMRC have accounted for the costs of removing the relief – for example mass tax code changes.

#### 4 Conclusion

- 4.1 This clause will increase the tax burden on around 300,000, typically lower paid employees by £62 a year.<sup>1</sup> The tax outcomes for these workers depend entirely on employer behaviour outside their control. We recommend that Clause 21 be reconsidered or removed.
- 4.2 It is worth stating that this isn't the only example in the system of such inconsistent treatment. In the longer term, we would like to see much more alignment between the tax treatment of reimbursed and unreimbursed expenses to improve fairness and cohesion in the system. We would welcome HMRC/HMT launching a full consultation 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.

LITRG  
19/01/2026

#### Contact for further information:

**George Crozier, LITRG Head of External Relations**  
[gcrozier@tax.org.uk](mailto:gcrozier@tax.org.uk); 020 7340 0569

#### About Us

The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those who are least able to pay for professional advice. We also produce free information, primarily via our website [www.litrg.org.uk](http://www.litrg.org.uk), to help make a difference to people's understanding of the tax system.

LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for

---

<sup>1</sup> <https://www.gov.uk/government/publications/income-tax-removal-of-the-tax-relief-for-additional-homeworking-expenses/removal-of-tax-relief-on-non-reimbursed-homeworking-expenses>

improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.

The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.