In the know: VAT edition

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Change, cost and compliance in 2026

The VAT landscape continues to evolve at pace, with a combination of policy developments, sector-specific challenges and increased scrutiny from HMRC shaping how businesses manage their obligations.

For many organisations, VAT is no longer simply a compliance exercise. It is an area that can have a direct impact on cash flow, cost management and operational decision-making. In a climate where margins remain under pressure and financial control is critical, understanding how these changes affect your position is more important than ever.

Recent months have seen a number of notable developments, including changes in the VAT treatment of temporary medical staff, alongside ongoing compliance considerations and emerging areas of HMRC focus.

At the same time, sector-specific challenges, particularly within hospitality and the charity space, continue to highlight the complexity of applying VAT rules in practice.

Alongside these developments, updates such as revised HMRC interest rates and the forthcoming introduction of the Vaping Products Duty serve as a reminder that the cost of getting VAT wrong, and failing to prepare for what lies ahead, is increasing.

In this issue of In the know: VAT, we bring together the latest insights and developments, focusing not only on what has changed, but what it means in practice, helping you to navigate risk, identify opportunities and make informed decisions with confidence.

In the know is our ongoing series designed to keep you up to speed with the latest regulatory updates, tax developments and policy changes that could impact your organisation. From evolving legislation to shifts in compliance requirements, we'll highlight what's changing, why it matters, and what action, if any, you need to take. Timely, relevant and clearly explained, these updates will ensure you stay informed and prepared.

Changes to the VAT treatment of temporary medical staff

HMRC issued Revenue & Customs Brief 9 (2025) in December 2025, confirming a significant change in its position on the VAT treatment of supplies of temporary medical staff. Following the First Tier Tribunal decision in Isle of Wight NHS Trust v HMRC [2025] UKFTT 1114 (TC) and other related cases, HMRC now accepts that the supply of locum doctors can be treated as VAT exempt.

This represents an important development for employment businesses supplying temporary medical staff, as well as for NHS bodies and private healthcare providers engaging those services.

Previously, many supplies of temporary locum doctors were treated as taxable, meaning VAT was charged on the supply. Under HMRC's revised position, these supplies may now fall within the VAT exemption for medical care, subject to the specific facts of each arrangement.

What this means in practice

The change has a number of practical and financial implications.

For employment businesses, the shift to VAT exemption may impact how supplies are structured and invoiced going forward. It also raises questions around historic VAT treatment, including whether overpaid VAT may be recoverable.

For healthcare providers, particularly those that are partially exempt, the position is more nuanced. While VAT may no longer be charged on the supply of locum doctors, this can affect input VAT recovery and may lead to changes in partial exemption calculations.

There are also wider considerations, including the potential for claims relating to historic periods, and the application of unjust enrichment rules where VAT has previously been passed on to customers.

Points to consider

Businesses operating in this area should review their current arrangements carefully in light of HMRC's updated position. In particular, it will be important to consider:

- whether existing supplies fall within the scope of the exemption
- the impact on input VAT recovery and partial exemption methods
- the potential for historic VAT reclaims, and any associated risks
- whether contractual arrangements and pricing structures need to be revisited.

HMRC has also published updated guidance on the VAT liability of the supply of temporary medical staff, which provides further detail on how the rules should be applied in practice.

Getting compliance right in a higher-risk environment

As VAT rules continue to evolve, ensuring compliance remains a key priority for businesses. However, the cost and complexity of getting it wrong is increasing, particularly as HMRC continues to focus on accuracy, transparency and timely correction of errors.

Recent guidance and commentary highlight a clear direction of travel. Businesses are expected not only to identify and correct VAT errors, but to do so in a way that demonstrates robust processes and controls.

Managing VAT errors effectively

Errors in VAT returns can arise for a number of reasons, including incorrect treatment of supplies, systems issues or simple human error. While some errors can be corrected through subsequent VAT returns, others require formal disclosure to HMRC.

Understanding when and how to correct errors is essential. Failure to follow the correct process can lead to significant additional costs, including interest and potential penalties.

Taking a proactive approach to identifying and correcting errors can help reduce risk. This includes regular reviews of VAT returns, ensuring that finance teams are aware of current rules, and maintaining clear documentation to support decisions made.

From risk to resilience

Beyond individual errors, there is a broader shift towards strengthening VAT processes and controls. For many organisations, this means moving from a reactive approach to a more structured and forward-looking strategy.

Building resilience in VAT management involves:

- reviewing existing processes and identifying areas of risk
- ensuring systems are aligned with current VAT requirements
- maintaining clear audit trails and supporting documentation
- keeping up to date with legislative changes and HMRC guidance.

In an environment where scrutiny is increasing, these steps can help reduce the likelihood of errors and ensure issues are identified and addressed quickly.

A growing focus on cost and accountability

With updated HMRC interest rates now in effect, the financial impact of VAT errors has become more pronounced. Late payment interest is currently charged at 7.75%, while repayment interest is set at 2.75%, increasing the cost of non-compliance or delayed correction.

This reinforces the importance of getting VAT right first time, as well as having effective processes in place to respond where issues arise.

Sector pressures: applying VAT in practice

While VAT rules are applied consistently in principle, their practical application can vary significantly across sectors. For many organisations, particularly those operating in complex or mixed supply environments, applying the rules correctly remains a persistent challenge.

Recent developments across the hospitality and charity sectors highlight how economic pressures, combined with evolving guidance, are increasing both the complexity and the financial impact of VAT.

Hospitality: managing complexity in a high-volume environment

The hospitality sector continues to operate under sustained pressure, with rising costs across energy, labour and supply chains. Within this environment, VAT remains a key consideration, particularly given the volume and variety of transactions processed on a daily basis.

Applying the correct VAT treatment across food, drink and accommodation can be complex, especially where different VAT rates apply depending on how and where items are consumed. This is further complicated by promotional activity, such as discounts, meal deals and bundled offerings, where the VAT treatment must reflect the true nature of the supply.

There is also an increased focus on getting VAT right in relation to service charges and tips, as well as ensuring that systems accurately capture and report transactions. Errors in classification or reporting can lead to underpaid VAT or overpayments, both of which carry financial and compliance risks.

In a sector where margins are already tight, maintaining accurate VAT treatment and robust processes is essential to avoiding unnecessary cost and exposure.

Charities: determining the correct VAT treatment of income

For charities, VAT complexity often arises from the need to assess multiple income streams, each of which may be treated differently for VAT purposes.

Income from trading activities, fundraising events, grants and donations may fall into taxable, exempt or outside the scope categories, depending on the precise nature of the income and how any activities are structured.

Determining the correct VAT treatment is not always straightforward. For example, certain fundraising events may qualify for exemption, while other forms of income may be subject to VAT. Grants may fall outside the scope of VAT where there is no associated supply, but careful consideration is needed to confirm this position.

These distinctions are important, as they directly affect a charity's ability to recover input VAT. Incorrect classification can either restrict VAT recovery unnecessarily or create a risk of non-compliance.

Regular reviews of income streams and supporting documentation are therefore essential to ensure the correct VAT treatment is applied and VAT recovery positions are optimised.

Supporting donations: extension of VAT relief

From 1 April 2026, VAT relief on the donation of goods from businesses to charities has been extended. This change allows a broader range of goods to be donated without triggering a VAT charge, where certain conditions are met.

Previously, VAT could arise when goods were removed from stock and donated, depending on the particular situation. The extension of VAT relief to such donated goods reduces this barrier, making it easier for businesses to donate surplus goods while supporting charitable organisations.

For charities, this can provide access to additional resources. For businesses, it creates an opportunity to manage excess or unsold stock in a more efficient and socially beneficial way.

As with all VAT reliefs, it is important to ensure that the conditions are satisfied and that appropriate records are maintained to support the VAT treatment adopted.

Legal developments and HMRC direction of travel

Alongside policy changes and sector-specific challenges, recent legal developments and HMRC activity provide useful insight into how VAT rules are being interpreted and enforced in practice.

These developments not only clarify specific areas of VAT treatment but also highlight a broader trend towards increased scrutiny and a more data-driven approach from HMRC.

EV charging: tribunal highlights complexity in VAT treatment

A recent First Tier Tribunal (FTT) case involving Charge My Street Limited (Charge My Street Limited v HMRC [2026] (TC09802)) has brought renewed focus to the VAT treatment of electric vehicle charging, particularly where charging infrastructure is installed in residential or community settings.

The case considered how supplies should be characterised for VAT purposes, including whether or not they should be treated as a supply of electricity deemed for domestic use. The distinction is important, as supplies for domestic use qualify for the 5% reduced rate of VAT rather than the standard rate (currently 20%).

The FTT's decision highlights the complexity of applying VAT rules to emerging business models, particularly where traditional definitions do not always align neatly with how services are delivered in practice.

Although the FTT in the Charge My Street Limited case considered that 5% VAT applied based on the particular fact pattern, HMRC has confirmed in Revenue & Customs Brief 4 (2026) that it will be appealing the FTT decision and that its position remains that charging electric vehicles at public charge points is standard rated.

For businesses operating in this space, or those investing in EV infrastructure, it reinforces the importance of carefully assessing the nature of the supply and ensuring that the VAT treatment applied reflects the underlying commercial reality and HMRC's existing guidance.

As the case law is continually developing, this should be regularly monitored by affected businesses so that any changes to the current VAT position can be quickly implemented.

HMRC guidance and the growing use of data

HMRC has also published guidance for public bodies on how to request data for policy, operational or analytical purposes. While this guidance is aimed specifically at public sector organisations, it reflects a wider shift in how HMRC is using data to inform decision-making and compliance activity.

The increasing availability and use of data allows HMRC to identify patterns, assess risk and target areas for further investigation more effectively. For businesses, this reinforces the importance of maintaining accurate and consistent VAT records, supported by clear documentation.

It also underlines the need for transparency in VAT reporting, as inconsistencies or anomalies are more likely to be identified in a data-driven compliance environment.

A clearer direction of travel

Taken together, these developments point towards a VAT landscape where interpretation, documentation and accuracy are under increasing focus.

Whether dealing with new and evolving areas such as EV charging, or responding to more sophisticated HMRC data analysis, businesses are expected to demonstrate a clear and supportable approach to VAT.

In this environment, taking time to review how supplies are characterised, ensuring that records are complete and consistent, and keeping up to date with emerging guidance will be key to managing both VAT risk and compliance.

Looking ahead: Vaping Products Duty

Businesses operating in the vaping sector should also be preparing for the introduction of the Vaping Products Duty (VPD), which is due to come into effect from 1 October 2026. The new excise duty will apply to all vaping products and substances intended for vaping, including e-liquids and certain home-mixed products, regardless of whether they contain nicotine.

Applications for approval to pay VPD and to use the vaping duty stamps scheme opened on 1 April 2026. HMRC has advised businesses to begin preparations early, noting that approval checks may take up to 45 working days.

From 1 October 2026:

- VPD will become payable when vaping products are manufactured or imported into the UK for sale
- Vaping duty stamps will need to be attached to the retail packaging of vaping products before they enter the market
- Manufacturing, storing or selling unstamped vaping products without the appropriate approvals will become illegal and may result in civil or criminal penalties for non-compliance.

HMRC has indicated that a flat rate of £2.20 per 10ml bottle of vaping liquid will apply, with VAT then applied in addition.

The changes are expected to affect manufacturers, importers, warehouse keepers and retailers across the supply chain. Businesses may therefore need to review:

- whether they require HMRC approval for manufacturing or storage sites
- how vaping duty stamps will be applied and tracked
- supply chain and warehousing arrangements
- record keeping and evidence required to demonstrate compliance and to support VPD returns.

There are also further deadlines beyond implementation. From 1 April 2027, all vaping products sold outside of duty suspension will be required to carry a vaping duty stamp, including products already within retail channels following the end of the 6-month grace period. Any stock held before 1 October 2026 which is not stamped will need to be sold before 1 April 2027.

For affected businesses, early preparation will be key to avoiding disruption and ensuring compliance once the new regime comes into force. HMRC has confirmed there will be very limited VPD exemptions. Also, civil and criminal sanctions/penalties may apply where the required approval is not obtained in time for VPD's introduction, where VPD is not paid or stamps not used correctly from 1 October 2026 onwards.

Next steps

The developments outlined in this issue, while varied in focus, highlight several consistent themes across the VAT landscape: increasing complexity, greater scrutiny and a growing financial impact for businesses.

From changes in the VAT treatment of temporary medical staff, to ongoing VAT compliance requirements, sector-specific challenges and the introduction of new regimes such as the Vaping Products Duty, HMRC continues to take an active and evolving approach to VAT.

Now is the right time to review your VAT position, ensure that processes and controls remain robust, and assess whether your organisation is well positioned to respond to both current requirements and upcoming changes.

If you would like tailored support or advice on any of the topics discussed in this update, your usual UHY adviser or local VAT specialist will be happy to help.

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