



HM Treasury

Taxation of employee expenses: response to the call for evidence

December 2017

Taxation of employee expenses: response to the call for evidence



© Crown copyright 2017

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gsi.gov.uk

ISBN 978-1-912225-37-8

PU2128

Contents

Chapter 1	Introduction	2
Chapter 2	Overview of current tax rules for employee expenses	5
Chapter 3	Contributions to the call for evidence	7
Chapter 4	Government response	14
Chapter 5	Conclusion and next steps	18
Annex A	Questions in the call for evidence	19
Annex B	List of organisations who submitted written contributions	23

Chapter 1

Introduction

Background and purpose of the call for evidence

1.1 The taxation of expenses is important for millions of employers and employees. The government published a call for evidence in March 2017 to understand more about the rules and administration in this area.¹ The three objectives of the call for evidence were to identify:

- 1 **If the rules or their administration could be clearer and simpler.** The government has been concerned by reports suggesting that the rules for expenses can be complex and unclear. The Office for Tax Simplification (OTS) published its final report on the income tax and NICs treatment of employee benefits and expenses in 2014. This report highlighted parts of the system that could be simplified and made several recommendations.² The government has already taken steps to respond to the recommendations, including:
 - publishing updated guidance on employee travel (HMRC booklet 490),³ which included improved guidance on the rules for projects carried out in phases
 - formally consulting on the travel and subsistence rules in 2015-16⁴
 - removing the requirement for employers to apply to HMRC for a dispensation in relation to expenses or benefits that they pay, reimburse or provide to employees, from April 2016⁵
- 2 **Whether the tax rules for expenses are fit for purpose in the modern economy.** There have been shifts in the labour market and workplace practices in recent decades. The call for evidence therefore sought to understand the impact of wider economic changes on the use of employee expenses and whether the tax rules need to change in response.
- 3 **Why the exchequer cost of tax relief on non-reimbursed expenses has increased in recent years.** Almost 5 million individuals benefitted from tax relief on non-reimbursed expenses in 2015-16. This tax relief cost the Exchequer £740 million, which was a 25% increase from the cost in

¹ [Taxation of employee expenses call for evidence](#), HM Treasury, 2017.

² [Review of employee benefits and expenses: final report](#), Office for Tax Simplification, 2014.

³ [Booklet 490: Employee travel - a tax and National Insurance contributions guide for employers](#), HMRC, 2016.

⁴ [Travel and subsistence - summary of responses](#), HMRC, 2016.

⁵ Rules for exemptions are set out in Section 289 Income Tax (Earnings and Pensions) Act (ITEPA) 2003.

2013-14.⁶ The call for evidence sought views on what might have caused this increase.

- 1.2 This document summarises the responses to the call for evidence, and explains the actions the government will take to improve the taxation of employee expenses.

Summary of contributions to the call for evidence

- 1.3 The call for evidence ran from March to July 2017. The government received 53 written contributions from a range of employers in different industry sectors, as well as accountants, representative bodies and individual employees. These respondents are listed in Annex B. Some representative bodies surveyed their members and shared anonymous information. HM Treasury and HMRC also participated in 11 meetings with over 30 stakeholders in London, Derby, Leeds and Edinburgh.

- 1.4 Chapter 3 sets out the summary of responses in detail. Some of the key messages were:

- **There is little appetite among respondents for significant reform.** The rules on the taxation of employee expenses are well-established and employers are used to operating within the existing framework. Most respondents indicated a desire for a period of stability without any major changes in the rules.
- **Employers are used to the current rules, but the process of engaging with the system can be burdensome.** For example, many employers have to keep receipts in order to meet their tax compliance obligations. A number of respondents felt this was burdensome and often disproportionate for smaller expense claims.
- **Individual employees face challenges in understanding and engaging with the expenses system.** Most respondents said that the system for claiming relief on non-reimbursed expenses can be difficult to navigate. This can make it hard for employees to understand what expenses they are entitled to claim on and how to go about doing so. Respondents suggested improvements to HMRC's information, guidance and online administration.
- **Broadly, the rules are still fit for purpose in the modern economy and reflect the expenses employees have today.** Respondents who said that this was not the case often attributed this to changes in the expenses employees incur for travel and subsistence, an area that featured heavily in responses. In particular, some thought that it has become more common for employees to work between several different offices or bases, and to work from home.

⁶ Based on HMRC administrative data. The government's initial call for evidence stated that the cost of tax relief on non-reimbursed expenses was £800 million per year, and that there had been a 25% increase in the number of claims between 2009-10 and 2014-15. Subsequent revision to the data shows that the cost of the relief was £705 million in 2014-15 and £740 million in 2015-16. The number of individuals benefiting from relief rose from 3.95 million in 2009-10 to 4.9 million in 2015-16. HMRC does not have administrative data on the cost of tax relief for reimbursed expenses and the number of employees who benefit, as employers do not need to report this information.

- Respondents did not agree on a definitive cause for the recent increase in Exchequer cost for non-reimbursed expenses and the number of employees claiming this tax relief. However, they did indicate a few reasons that could have contributed. Some thought increased cost pressures for some organisations means that they are reimbursing their employees' business expenses less generously than before, leading to more employees with non-reimbursed expenses and therefore more employees eligible to claim tax relief from HMRC. Others suggested that employees' knowledge of how to claim, although still generally limited, may be improving due to guidance and advertising by third parties.

Summary of government response

- 1.5 In light of the evidence provided, the government will approach any reforms very carefully. Millions of employees and their employers could be affected by changes to the taxation of employee expenses. The rules may have been in place for a long time but this means they are well-established, and it is not clear that there are major areas where they do not reflect modern working practices. While there are areas of complexity, employer policies and processes are typically designed to operate within the current framework and so there could be significant costs from major reforms.
- 1.6 The government will take some steps to improve the system in response to specific concerns raised by respondents. But in order to minimise disruption to employers and employees, there are no current plans for fundamental reform of or restrictions to the tax relief for reimbursed and non-reimbursed expenses.
- 1.7 The government has announced at Autumn Budget 2017 that it will:
- consult in 2018 on **extending the scope of tax relief currently available to employees (and the self-employed) for work-related training costs**, to support lifelong learning and retraining
 - **remove the requirement for employers to check receipts when making payments to employees for subsistence using benchmark scale rates** from April 2019, in order to reduce the administrative burden on businesses and employees
 - **place the existing concessionary accommodation and subsistence overseas scale rates on a statutory basis** from April 2019, to provide certainty for employers
 - work with external stakeholders to **explore possible improvements to the guidance on employee expenses**, particularly on travel and subsistence, and the process for claiming tax relief on non-reimbursed expenses

Chapter 2

Overview of current tax rules for employee expenses

- 2.1 This chapter briefly summarises the current rules for the taxation of employee expenses. Generally, tax relief is available when expenses are incurred “wholly, exclusively, and necessarily in the performance of the duties of the employment.”¹ Expenses that put an employee in a position to do their job, such as the cost of ordinary commuting, are not eligible for tax relief. There are also provisions for tax relief on the cost of specific expenses that do not meet the “wholly, exclusively, and necessarily” test, such as professional fees and subscriptions, and travel and subsistence.
- 2.2 **When employers pay for or reimburse expenses** that are eligible for tax relief, the payment is not taxed. For example, if an employee pays for a train ticket to travel from their permanent office to another office for a business meeting, and their employer reimburses the cost of the train ticket, the reimbursement is not liable to income tax or NICs.
- 2.3 Sometimes employers provide employees with round sum cash allowances to cover potential expenses. For example, employees may receive a travel allowance in case they need to travel for business trips. As employers give this to employees regardless of whether they incur the expenses or not, these cash allowances are taxed in the same way as other income.
- 2.4 **When employers do not reimburse expenses** eligible for tax relief that employees have incurred, the employee can submit a claim to HMRC after the end of the tax year.
- 2.5 Employees can also claim flat rate expense (FRE) allowances to cover small amounts of non-reimbursed spending. These are agreed amounts based on the typical cost of expenses incurred each year by employees in specified occupations. FREs are an administrative easement allowing employees to claim for the fixed rate rather than the actual expense.² For example, employees who are not reimbursed for the cost of repairing and maintaining tools and specialist clothing for work can apply for tax relief in this way.
- 2.6 **The administration of the tax relief** for expenses paid for or reimbursed by the employer was simplified from April 2016 with the introduction of an exemption for reimbursed expenses.³ Under this exemption, qualifying expenses can be paid by employers free of tax without the need to apply to HMRC for a dispensation. These expenses do not need to be returned to

¹ Section 336(1) Income Tax (Earnings and Pensions) Act (ITEPA) 2003.

² FREs are provided for in Section 367 Income Tax (Earnings and Pensions) Act (ITEPA) 2003 and set out in HMRC [EIM32700](#).

³ Rules for exemptions are set out in Section 289 Income Tax (Earnings and Pensions) Act (ITEPA) 2003.

HMRC at the end of the tax year, and employees do not need to make a claim to HMRC for a corresponding tax relief. These changes represent a significant simplification for employers and employees.

- 2.7 Employees whose expenses are not reimbursed by their employer can claim for amounts up to £2,500 through the online Personal Tax Account or form P87.⁴ Claims for amounts of £2,500 or more can be made by completing a Self-Assessment tax return.

⁴ The [Personal Tax Account](#) and HMRC [P87 form](#) can be accessed on the GOV.UK website.

Chapter 3

Contributions to the call for evidence

3.1 This chapter summarises respondents' contributions to the call for evidence. The government received 53 written responses from employers, tax advisors, representative bodies and a small number of individual employees. Some respondents kindly conducted surveys and sent a summary of results. Others shared anonymous data on the amount and type of employee expenses that they reimburse.

How expenses affect employers (Q1-3)

3.2 The questions in this section asked about employers' current practices for reimbursing expenses.

What expenses do employers reimburse?

- 3.3 Most respondents said that employers' expense policies try to strike a balance between twin objectives: reimbursing legitimate expenses and controlling cost.
- 3.4 Firstly, businesses reported wanting to 'do the right thing' by reimbursing all legitimate expenses incurred by employees. There were a variety of views on what counts as a legitimate business expense, but often employers use the tax rules to define what reasonably ought to be reimbursed.
- 3.5 Secondly, employers also said that they wish to control the cost of reimbursing expenses, and adopt a number of approaches for doing so. For many, this means not reimbursing expenses that do not attract tax relief. Others choose not to reimburse all or part of tax-deductible expenses, leaving their employee to submit a claim to HMRC for relief.
- 3.6 Regardless of which of the two objectives employers see as more important, it is clear that the tax system is embedded into employers' expense policies. Changing the tax rules substantially would naturally change expense policies, which tend to be a well-established part of an employer's business.

Do employers use cash allowances?

3.7 A significant minority of respondents knew of firms that pay their employees cash allowances instead of reimbursing specific expenses, often to reduce the burden of administering expenses. Cash allowances are treated like salary and are taxable except in the case of agreed scale rates, which allow employers to reimburse their employees' expenses at a fixed tax-free rate under certain conditions. Employees may then claim for tax relief in the normal way on any actual expenses they incur and pay for but which have

not been reimbursed. Respondents said employers do not keep data on how many employees claim this tax relief.

- 3.8 Most employers know that they can use scale rates to reimburse certain expenses tax-free by fixed amounts. However, some respondents argued that paying benchmark scale rates for subsistence still carries a disproportionate administrative burden for both employees and employers, because of the need to retain and check evidence that an expense has been incurred.

Are there variations in different sectors and for different employees?

- 3.9 Many respondents said that they knew of different employer practices in different sectors. Often, this simply reflects the fact that employees in different sectors tend to incur different costs.
- 3.10 For example, some employers with employees frequently claiming for subsistence reimburse their employees using benchmark scale rates, as an administrative easement.¹ This allows them to reimburse their employees' expenses when they are travelling at a fixed tax-free daily rate. Respondents welcomed this flexibility in how they can reimburse their employees' expenses.
- 3.11 Most respondents said that the expense policy within an organisation does not vary with employee seniority. However, while the type of expenses reimbursed tends not to change, sometimes their amount does – for example, senior employees are more likely to use first-class travel and more expensive hotels.

How do employers treat expenses that are not reimbursed?

- 3.12 Almost all respondents, including employers, said that employers do not tell their employees how to claim tax relief from HMRC when they do not reimburse certain expenses. Two main reasons were given for this. Firstly, employers may not wish to draw attention to the fact that they are not reimbursing the expense. Secondly, some employers think that there could be a legal or compliance risk in inadvertently giving employees incorrect tax advice.
- 3.13 Most respondents said that the system for claiming relief on non-reimbursed expenses can be complex for employees to use. This means that employees generally find it hard to understand what expenses they are entitled to claim on and how to go about doing so

Employees' expectations of how their employer will treat their expenses (Q4-7)

- 3.14 The questions in this section asked about the expenses employees normally incur, expectations about when these are reimbursed, and the evidence they need to provide that they have incurred these expenses.

¹ The tax rules for payments for subsistence at a benchmark rate are set out in the Income Tax (Approved Expenses) Regulations 2016 (SI 2015/No 1948).

What are the most commonly incurred expenses?

- 3.15 There was a clear message that the main type of expenses incurred relate to travel and subsistence. This tends to be both the most frequently incurred expense and the costliest category for employers to reimburse. The government is aware that the tax rules on travel and subsistence are therefore very important for employers and employees.
- 3.16 Respondents said that frequently-incurred types of expense are professional subscriptions and fees (including professional indemnity fees), cleaning costs for uniforms and safety wear, mobile phone usage, and course fees for continuing professional development. Practices vary between organisations, but responses indicated that most employers reimburse these expenses most of the time.
- 3.17 Other expenses incurred reasonably often are stationery and office supplies, the use of home for work purposes, and incidental overnight expenses paid to cover the additional costs of staying away from home, such as hotel Wi-Fi and laundry.

What are employees' expectations around expenses?

- 3.18 Almost all respondents said that employees expect employers to reimburse them for the legitimate expenses they incur. However, expectations about what is legitimate naturally vary between different organisations and sectors.
- 3.19 Respondents mentioned several particular types of expense that employees generally do not expect to be reimbursed. They said that:
- few employers reimburse day subsistence. Tax relief is available towards the cost of lunch when an employee is working away from their normal base, but many employers do not pay for this, often because they see this as being similar to a private expense
 - many employers pay Approved Mileage Allowance Payments (AMAPs) below the maximum rate²
 - some employers only reimburse employees incurring qualifying travel expenses for the additional cost above what they would have spent on an ordinary commute, even though HMRC rules allow tax relief on the entire cost
- 3.20 There was also a distinction drawn between expenses that are necessarily incurred, and those that are incurred due to an employee's personal preference. Several respondents pointed out that employees expect to be reimbursed for the former but not for the latter.
- 3.21 The influence that employees have over the amount and scope of reimbursement of necessary business expenses appears to vary widely between organisations. Some respondents pointed out that smaller businesses are more likely to have case-by-case expense policies, rather than written documents, and in these cases individual employees may be able to influence what is reimbursed. In larger organisations, respondents said that

² The rules and rates of AMAPs are set out in Sections 229-232 Income Tax (Earnings and Pensions) Act (ITEPA) 2003.

many factors affect the amount of influence employees have, including historical expectation of reimbursement and the level of negotiation with employees' representative bodies.

- 3.22 Almost all respondents said that an employer's expense policy can affect recruitment and retention of its staff, largely where a policy is more or less generous than the norm in a given sector or industry.

What evidence are employees expected to provide in their expense claims?

- 3.23 Virtually all responses supported the expectation that receipts are still the main evidence of expenses that employees are expected to provide to their employers. Partly, this is a matter of business administration, for employers to make sure that employees did incur the expenses they have claimed for. However, many employers also keep receipts in order to meet their tax compliance obligations, something that a number of respondents felt was burdensome and often disproportionate for smaller expense claims.
- 3.24 Responses also indicated that new technology is changing the way that employees provide evidence of the expenses they incur. Some pointed out that it is increasingly rare to be given a receipt when using a contactless card for a single journey on public transport. Others said the increasing use of smartphones can eliminate the need for paper receipts as employees can more easily take photos of receipts, send proof of payment from online banking apps, and provide automatically generated itineraries in lieu of travel receipts.

Changes in expense practices (Q8-9)

- 3.25 The questions in this section asked about recent changes in the type or amount of expenses that employees incur, and the expenses that employers reimburse.

How have expense practices changed in the last 5-10 years?

- 3.26 Most respondents said that there has not been substantial change over the last 5-10 years in either the expenses employees incur or the expenses employers reimburse.
- 3.27 Of the minority of respondents who thought that practices have changed, most said that the amount of expenses incurred has increased but the amount of expenses reimbursed has decreased. Together, these reported trends may help to explain the increase in the number of claims and Exchequer cost for tax relief on non-reimbursed expenses.
- 3.28 Respondents who reported an increase in the amount of expenses incurred said that this is mostly driven by more employees working between several offices or bases, and incurring expenses when they travel between them. Respondents also said that there is a growing trend for employees in some sectors to work from home, meaning that they may incur more expenses for broadband, utility bills, and purchasing items of office equipment. A few respondents also said that the amount of mobile phone expenses incurred

has increased because employees increasingly have their own mobile phones and use these for work occasionally.

- 3.29 Respondents who reported a decrease in the amount of expenses reimbursed said that this is due to increased cost pressures on businesses and general 'belt-tightening'.
- 3.30 Respondents were not able to provide data on the amount of expenses they have reimbursed across this period but it was suggested, in general, that there had not been much change in the last 5-10 years.

Reflecting modern working practices (Q10-11)

- 3.31 The questions in this section asked whether the current rules for tax relief reflect the way that employees work today.

Do the current rules reflect modern working practices?

- 3.32 Most respondents agreed that the scope of expenses eligible for tax relief reflects the type of expenses that employees incur today. Those who disagreed often attributed this to the changes in the type expenses incurred and reimbursed over the last 5-10 years, mentioned above.
- 3.33 Some respondents said that there has been an increase in the number of employees who work between several bases, and thought that the tax rules should become more generous to keep up with this practice. Others mentioned the growing trend for working from home, and said that further consideration should be given to how the "wholly, exclusively, and necessarily" rule applies to business-use expenses incurred by these employees.
- 3.34 Changes in tax policy may also have changed the way that employers choose to reimburse their employees. A few respondents said that changes to the salary sacrifice rules in 2016 have led to a trend of replacing company cars with cash allowances.³ They indicated that this may have led to more claims for Mileage Allowance Relief (MAR) directly from HMRC, since many employers tend to pay less than the maximum AMAPs rate.
- 3.35 A few respondents mentioned training, and said it is unfair that tax relief applies if an employer pays for a training course, but not if the employee funds the same course and it is not reimbursed.⁴
- 3.36 Very few respondents offered examples of expenses that are currently eligible for tax relief but should not be. Again, this was evidence that employers typically use the HMRC rules as a starting point to guide their expense policies.

How employees claim tax relief (Q12-15)

- 3.37 The questions in this section asked about how employees claim tax relief for non-reimbursed expenses, and their use of flat rate expenses.

³ The guidance for changes to legislation on optional remuneration arrangements are set out on the [GOV.UK](https://www.gov.uk) website.

⁴ Rules for the work-related training exemption are set out in Sections 250-254 Income Tax (Earnings and Pensions) Act (ITEPA) 2003.

Do employees know the rules for expenses and how to claim?

- 3.38 Most respondents said that the system for claiming relief on non-reimbursed expenses can be complex and difficult to navigate for employees. This can make it hard for them to understand what expenses they are entitled to claim tax relief on and how to go about doing so. However, some said employees' knowledge may be improving due to increased guidance and advertising by HMRC and third parties.
- 3.39 Many suggested improving employees' awareness of the rules and claims process through the GOV.UK website, messaging on the Personal Tax Account (PTA), and social media. However, respondents understood that HMRC's online reach is often limited to those who are already interested in or knowledgeable about tax affairs. Some respondents said that the most important message for HMRC to highlight is that claiming for tax relief can be done directly and does not incur a cost.
- 3.40 Some respondents suggested that HMRC should work on further improving the online P87 form for claiming tax relief on non-reimbursed expenses.⁵ A few were concerned that the online form is separated into several stages, rather than appearing on a single page. This means that customers do not know what information they need to complete the form before they begin filling it out.
- 3.41 Other respondents said that the introduction of the PTA is a good opportunity for more employees to claim tax relief on non-reimbursed expenses directly.⁶ A few suggested that, once the customer has logged into their PTA, the form could be pre-populated with known information about the customer to save time.

How do employees claim?

- 3.42 Some employees who claim non-reimbursed expenses do this directly and some do it through third parties. Employees who don't claim directly from HMRC either use tax refund agents, or use an accountant if they have already hired one to deal with their self-assessment return and other tax affairs. Since most respondents were employers, tax advisers or representative bodies, they could not comment on this in much detail. However, no respondents knew of employers who claim tax relief for non-reimbursed expenses on their employees' behalf.

Are flat rate expenses still appropriate?

- 3.43 Most respondents thought that FREs are an appropriate administrative easement, even though some said that the rates could be more generous.⁷ Some said that the FRE framework is useful as it makes it easier for employees to understand the levels at which they can spend and claim.

⁵ HMRC [P87 form](#).

⁶ The Personal Tax Account can be accessed on the [GOV.UK](#) website.

⁷ FREs are provided for in Section 367 Income Tax (Earnings and Pensions) Act (ITEPA) 2003 and set out in HMRC [EIM32700](#).

- 3.44 Many respondents thought that if FREs were no longer available employers would reimburse the actual cost of these expenses. A few respondents pointed out that the number of different FREs for different occupations could be reduced.

The future of employee expenses (Q16-17)

- 3.45 The questions in this section asked how expense practices will change in the future.

How will expense practices change in the next 5-10 years?

- 3.46 Most respondents did not think that the type and amount of expenses incurred or reimbursed will change substantially in the next 5-10 years. Those who thought that it would change expected an increase in the amount of employee travel, and an increase in the number of employees working from home.
- 3.47 Those who expected an increase in international travel in particular mentioned that accommodation and subsistence overseas scale rates are a useful and simple way for employers to reimburse employees for the costs that they incur, especially as reimbursing expenses on an actuals basis can be challenging in foreign countries.⁸
- 3.48 Other responses suggested that the tax rules ought to reflect the increasing use of hybrid and electric cars. The government does not provide a separate Advisory Fuel Rate (AFR) for hybrid cars, which instead use the rates for petrol or diesel cars.⁹ Electric cars cannot use AFRs. Some respondents also expressed concern that passenger payments for mileage rates attract tax relief when the expense is reimbursed, but do not attract tax relief when the expense is not reimbursed.¹⁰
- 3.49 A few respondents expected the digital systems used by finance and payroll teams to change in the future, which they thought would reduce the need for employers to keep paper receipts.

⁸ Accommodation and subsistence overseas scale rates are published on the [GOV.UK](https://www.gov.uk) website.

⁹ Details of Advisory Fuel Rates are on the [GOV.UK](https://www.gov.uk) website.

¹⁰ Rules for passenger payments are set out in Section 233 Income Tax (Earnings and Pensions) Act (ITEPA) 2003.

Chapter 4

Government response

- 4.1 This chapter sets out the government's response to the evidence provided by contributors. There was a clear message from respondents that the current rules on the taxation of employee expenses are a well-established part of the system, and often central to the design of employers' expense policies. Hence, the bar for substantial change to the tax rules is set high.

Government actions

- 4.2 Responses gave no suggestion of major problems in the system to warrant fundamental reform. However, the government has identified several areas to improve and simplify the system for businesses and employees.

Self-funded training

- 4.3 Many respondents mentioned training expenses as an area that the government could explore further. In particular, some were concerned that tax relief applies if an employer pays for a training course, but not if the employee funds the same course and it is not reimbursed.¹ In order to support retraining and upskilling for employees at all points in their working life, the government has announced at Autumn Budget 2017 that it will **consult in 2018 on extending the scope of tax relief currently available to employees (and the self-employed) for work-related training costs.**

Scale rates

- 4.4 Benchmark scale rates are the average daily rates at which employers can reimburse their employees who are away on work.² Respondents said that benchmark scale rates for subsistence costs are useful, especially given the reported increase in the amount of travel that employees are required to do for work. However, a general theme from the call for evidence response was that checking paper receipts – especially for smaller amounts – can be disproportionately burdensome on employers and employees. So, to further ease the burden on employers, the government has announced at Autumn Budget 2017 that it will **remove the requirement for employers to check receipts when making payments to employees for subsistence using benchmark scale rates, from April 2019.** HMRC will only require employers

¹ Rules for the work-related training exemption are set out in Sections 250-254 Income Tax (Earnings and Pensions) Act (ITEPA) 2003.

² The tax rules for payments for subsistence at a benchmark rate are set out in the Income Tax (Approved Expenses) Regulations 2016 (SI 2015/No 1948).

to keep a record that their employee was away on qualifying business travel, rather than what is spent.

- 4.5 Respondents also called for stability and predictability in the rules. To reflect this, the government has announced that it will **place the existing concessionary accommodation and subsistence overseas scale rates on a statutory basis from April 2019** to give employers certainty in their expense practices into the future. Some employers said that international travel forms an increasingly large part of the expenses that they reimburse, and that overseas subsistence rates are a useful and simple way to reimburse employees for the costs that they incur.³

Administration and guidance

- 4.6 The government appreciates that employers and employees see online guidance as a useful resource. HMRC made major reforms to much of the guidance recently, including booklet 490 on employee travel.⁴ Employers have said that this guidance has become more helpful as they get used to it over time so it does not seem appropriate to make more fundamental changes now, but there is scope for smaller improvements. Most respondents also said that the complexity of the system means many employees who are entitled to tax relief on non-reimbursed expenses do not understand what they can claim. The government has announced at Autumn Budget 2017 that HMRC commits to **working with external stakeholders to explore potential improvements to the guidance on employee expenses, particularly on travel and subsistence and the process for claiming tax relief on non-reimbursed expenses.**

Other issues

- 4.7 In some areas respondents identified individual issues for the government to consider, but there was often no clear consensus on the direction that reform might take, or insufficient evidence that the case for change in these areas would justify the disruption to employers and the possible increase in Exchequer cost.

Travel and subsistence

- 4.8 Travel and subsistence featured heavily in respondents' contributions. The two main issues were an increase in the number of employees who work between several offices, and the general complexity of the rules.
- 4.9 The government recently reviewed the rules in this area through a discussion paper in 2015-16.⁵ Many stakeholders expressed concerns that the introduction of new rules would risk substituting one set of complexities for another, and there was little consensus around the direction reform could take. Responses to this call for evidence provided no new evidence or reason to change that view. The government is open to further discussions about

³ Accommodation and subsistence overseas scale rates are published on the [GOV.UK website](#).

⁴ Booklet 490: Employee travel - a tax and National Insurance contributions guide for employers, HMRC, 2016.

⁵ [Travel and subsistence - summary of responses](#), HMRC, 2016.

travel and subsistence issues but **will undertake no specific reforms in this area at this stage.**

AMAPs and MAR

- 4.10 The call for evidence has highlighted some issues with Approved Mileage Allowance Payments (AMAPs) and Mileage Allowance Relief (MAR).⁶ Some respondents reported that often employers do not pay AMAPs at the maximum rate, and suggested that the government could explore a change to the rates, or the system of MAR. Other respondents pointed out that the government does not provide a separate Advisory Fuel Rate (AFR) for hybrid cars, and that electric cars cannot use AFRs.⁷ The government **has no specific plans for reform** in this area but will continue to keep it under close review.

Home working

- 4.11 Respondents reported an increase in the number of employees working from home, and some asked for more generous tax treatment as a result. The government has considered the current rules, but **has no plans to change the treatment of expenses for home working.** Employees who have to work at home on a regular basis can in many cases already claim for expenses that enable them to do their work and are for business use only, such as business telephone calls and the extra cost of electricity for work equipment.⁸ There is no limit on the amount that employees can claim, but records need to be provided to HMRC for any claims of over £4 a week.⁹

Relocation

- 4.12 Some respondents asked for the government to increase the £8,000 tax-free limit for relocation costs and benefits paid by an employer or a third party.¹⁰ The government has considered this case. This limit remains broadly consistent with expenses qualifying for tax relief when an employee moves within the UK and purchases a home of average value.¹¹
- 4.13 The number of employees who would benefit from an increase to the limit is very small. The government does not hold information on the number of employees benefiting from payments up to £8,000 because this does not need to be reported to HMRC. However, estimates suggest that only around 12,000 employees received payments above the limit from their employer in 2015-16.¹² The government will continue to keep the limit under review, and welcomes any firm new evidence of significant problems, but **has no plans to increase the limit at this stage.**

⁶ The rules and rates of AMAPs are set out in Sections 229-232 Income Tax (Earnings and Pensions) Act (ITEPA) 2003.

⁷ Details of Advisory Fuel Rates are on the [GOV.UK](https://www.gov.uk) website. Hybrid cars use the rates for petrol or diesel cars.

⁸ Rules for tax relief on home working expenses are on the [GOV.UK](https://www.gov.uk) website.

⁹ The exemption for homeworkers is set out in Section 316(A) Income Tax (Earnings and Pensions) Act (ITEPA) 2003.

¹⁰ The relocation limit is set out in Section 287 Income Tax (Earnings and Pensions) Act (ITEPA) 2003.

¹¹ Estimate based on typical relocation-related costs, including stamp duty and legal fees.

¹² Estimate based on HMRC administrative data.

Flat rate expenses

- 4.14 The government agrees with respondents that FREs remain relevant as a useful administrative easement. FREs are intended to represent the average amounts typically spent each year by employees on certain expenses when the employer does not reimburse these costs.¹³ Some respondents asked for the amounts to be increased. The government will consider evidence that the rates are no longer representative, but it believes that they are currently generous enough to cover typical amounts spent on legitimate expenses. Employees who incur additional allowable expenses can still make individual claims for additional tax relief, so **the government has no plans to increase the FRE allowances at this stage.**
- 4.15 A few respondents pointed out that the number of different FREs for different occupations could be reduced. Although the government acknowledges that this is possible, it believes that it would be difficult to reduce the number without causing some people to lose out or increasing Exchequer cost. Given that the current number of rates does not seem to make the system significantly harder for employees to use, **the government has no plans to reduce the number of different rates for FREs at this stage.**

NICs treatment of expenses

- 4.16 A few respondents argued that employees who incur expenses that are not reimbursed should be allowed to claim for National Insurance contributions (NICs) relief, as well as income tax relief. Reimbursed employment expenses are treated as exempt from tax and NICs (providing they are actual costs that have been incurred by the employee), but there is no NICs relief on non-reimbursed expenses. This is because employee NICs count towards social security entitlements, so allowing deductions for non-reimbursed expenses could reduce or eliminate social security entitlements, including for the low paid. In addition, NICs are paid by both employer and employee, and are calculated on a pay-period basis only. Since employee claims for tax relief on non-reimbursed expenses are made outside of the pay period, and without contact with the employer, **the government will continue with the current NICs treatment of expenses.**

The PAYE Settlement Agreement

- 4.17 A few respondents brought up the recommendation made by the OTS that the scope of the PAYE Settlement Agreement (PSA) should be widened, to permit employers to settle any tax liability on expenses using the PSA. The government has considered this. Expenses settled using the PSA are not attributable to individual employees.¹⁴ Widening the scope of the PSA to permit all expenses, some of which are very large in value, would affect employees' entitlement to certain benefits, and in some cases their personal allowance and High Income Child Benefit Charge. As a result, **the government will not widen the scope of the PSA, but it will continue to explore improvements.**

¹³ FREs are provided for in Section 367 Income Tax (Earnings and Pensions) Act (ITEPA) 2003 and set out in HMRC [EIM32700](#).

¹⁴ Rules for the PSA are set out in Section 706 Income Tax (Earnings and Pensions) Act (ITEPA) 2003.

Chapter 5

Conclusion and next steps

- 5.1 The government will continue to keep all the rules, and their administration, under review to ensure that they keep pace with the modern economy. The new tax policymaking cycle, with a single fiscal event each year, will allow the government to consult more widely so that policies are designed as effectively as possible. As part of this, the government will continue to listen to its stakeholders on ways that they think the system could be improved.
- 5.2 The call for evidence received responses from a wide range of employers, advisors and representative bodies. To continue to build its evidence base, HMRC will undertake research next year with individuals who claimed tax relief on non-reimbursed expenses, to see how employees use and interact with the expenses system. The government will publish the results of the research.
- 5.3 Most respondents indicated that the current rules are generally fit for purpose. However, after listening to contributions the government is taking steps at Autumn Budget 2017 to improve certain areas of the system. It will:
- consult in 2018 on **extending the scope of tax relief currently available to employees (and the self-employed) for work-related training costs**, to support lifelong learning and retraining
 - **remove the requirement for employers to check receipts when making payments to employees for subsistence using benchmark scale rates** from April 2019, in order to reduce the administrative burden on businesses and employees
 - **place the existing concessionary accommodation and subsistence overseas scale rates on a statutory basis** from April 2019, to provide certainty for employers
 - work with external stakeholders to **explore possible improvements to the guidance on employee expenses**, particularly on travel and subsistence, and the process for claiming tax relief on non-reimbursed expenses

Annex A

Questions in the call for evidence

Section 1: Current employer practices on employee expenses

How expenses affect employers

Question 1

What expenses do employers pay for or reimburse?

- Does this vary between employees, for example, employees on different salaries or on different types of contract?
- Are there different practices in different sectors?
- Please set out your expense policy if applicable.

Question 2

How do employers set expense policies? For example, is the type and level of expenses that will be reimbursed set out in contracts, through informal arrangements or on a case by case basis?

- What are the main factors employers consider when deciding whether to reimburse an expense?
- If employees are incurring expenses that would be eligible for tax relief, why might the employer not reimburse the expense or not reimburse the expenses in full?
- What do employers who don't reimburse tell their employees about claiming tax relief?

Question 3

Do employers pay for employee expenses with cash allowances rather than reimbursing specific expenses?

- If so, what factors do employers consider when offering a cash allowance including how much they decide to give?
- Do employees receiving a cash allowance claim for relief on expenses?

Employees' expectations of how their employer will treat their expenses

Question 4

What work expenses do employees normally incur? Please include any data you have on which expenses employees claim for reimbursement from their employer and how frequently employees do this.

Question 5

Do employees expect their employers to reimburse expenses?

- What factors does this depend on, for example, does the size of the organisation or sector influence employees' expectations?
- Do employees influence their employer's expense policy and does whether an employer reimburses or not impact the retention and recruitment of employees?

Question 6

What evidence are employees expected to provide to their employers of their expenses?

Question 7

Do employers know of employees who incur expenses which are not reimbursed and which would qualify for tax relief from HMRC?

- If so, why are these expenses not reimbursed and do employers know if employees are claiming a tax relief from HMRC?

Changes in expense practices

Question 8

Has the type and amount of expenses employees incur changed in the last 5-10 years and, if so, how and why?

- Does this vary by sector or the type of expense?

Question 9

Has the type and amount of expenses employers reimburse changed in the last 5-10 years and, if so, how and why?

- Does this vary by sector or the type of expense?

Section 2: Current tax rules on employee expenses

Reflecting modern working practices

Question 10

Do you think the scope of the current tax relief for employee expenses reflects the expenses employees have today?

- Are there any types of expenses that are currently eligible for relief where that no longer seems appropriate, and why?
- Are there any expenses which don't fall within the current exemption which you think should and why?

Question 11

Do HMRC's rules on expenses guide employers' expense policies? For example, do some employers only reimburse expenses which qualify for a tax relief?

How employees claim the tax relief

Question 12

Do employees know the rules for expenses and how to claim for expenses which are not reimbursed?

- How do employees find this information?

Question 13

Do employees usually claim directly or indirectly from HMRC?

- Why do employees claim in different ways and does this vary by the type of expenses?
- Do employees use agents to claim on their behalf? If so, why do employees do this? How much are they claiming for and how much does it cost to use an agent? Please provide data if possible.
- Do you think the use of agents has become more widespread? If yes, why do you think this is the case? Please provide data if possible.
- Do employers ever claim a tax relief for expenses which aren't reimbursed from HMRC on their employee's behalf? If so, why?

Question 14

Are flat rate expense allowances still appropriate?

- If flat rate expenses allowances were not available, would employers reimburse these expenses?

Question 15

Do you have any other suggestions for how the tax rules could be made clearer or their administration could be simplified for employers and employees?

- How could HMRC make it easier for employees to claim the tax relief directly and do employees know that making a claim directly from HMRC is a free service?

Section 3: The future of employee expenses

Question 16

How do you expect expense practices to change in future?

- Do respondents think there will be a wider range of employee expenses?
- Will the type of expenses employees pay, and claim for, change?

- What factors will influence employers' decisions whether to reimburse or not in future? Will employers be less inclined to reimburse certain expenses?
- What are the contributing factors to these changes?

Question 17

Are there areas of the tax treatment for expenses that the government should explore further?

Annex B

List of organisations who submitted written contributions

- Airbus
- Association of Accounting Technicians
- Association of Investment Companies
- Association of Taxation Technicians
- Baptist Union of Great Britain
- Bristol Water
- British Airline Pilots' Association
- British Universities Finance Directors Group
- Chartered Institute of Taxation
- Chubb
- Churches' Legislation Advisory Service
- Cintra
- Confederation of British Industry
- Deloitte
- Durham County Council
- Employment Taxes Industry Forum
- EY
- Federation of Clinical Scientists
- Grant Thornton
- Haysmacintyre
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Scotland
- KPMG
- Legal & General
- Low Income Tax Reform Group

- Mazars
- MHA MacIntyre Hudson
- Ministry of Defence
- Mitsubishi
- National Church Institutions
- National Grid
- National Trust
- Prudential
- PwC
- RIFT Tax Refunds
- Road Haulage Association
- Salvation Army
- Scottish Environment Protection Agency
- The Society and College of Radiographers
- Virgin Money
- West Yorkshire Police
- Whale & Company

HM Treasury contacts

This document can be downloaded from
www.gov.uk

If you require this information in an alternative format or have
general enquiries about HM Treasury and its work, contact:

Correspondence Team

HM Treasury

1 Horse Guards Road

London

SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gsi.gov.uk