

Office of Tax Simplification

REPORT ON EMPLOYEE BENEFITS AND EXPENSES

PROGRESS REPORT ON “QUICK WINS”

Following publication of our Interim Report on Employee Benefits and Expenses in August 2013, the Exchequer Secretary to the Treasury has written to confirm his support for progressing the priority areas of work that we identified in our Interim Report, and for taking further the “quick wins” that we highlighted in that report. These “quick wins” are proposals that we consider can be done quickly and easily and which would involve minimal change but would make the tax system (particularly administrative aspects) simpler for businesses and their employees in relation to benefits and expenses.

HMRC has now undertaken an initial review of our “quick win” proposals and has provided us with feedback on the extent to which each of these can be implemented quickly and effectively.

The purpose of this paper is to prioritise our annotated list of the 43 “quick wins” that we put forward in the Interim Report, taking into account these comments, and additional responses which we have received from our Consultative Committee, stakeholders, and bodies such as the Chartered Institute of Payroll Professionals and the Association of Accounting Technicians. HMRC asked us to prioritise the list so that they could focus their limited resources more efficiently.

How we have categorised the “quick wins”

In categorising our “quick wins”, some of these have already been implemented, others should be implemented as soon as possible and others will require further work before they can be put into effect (taking into account issues such as whether they will require legislative amendments or changes to HMRC or employer computer systems or processes). Finally, there are some “quick wins” that are being taken forward by other routes, including being considered as part of our wider “big picture” issues.

A more detailed summary of each of these categories is set out below.

Next stage of our review of employee benefits and expenses

In the next stage of our review of employee benefits and expenses we will be exploring and making proposals for simplification specifically in relation to HMRC administration and travel and subsistence issues. We will also continue to look at “big picture” issues which are relevant to the overall regime, as well as looking in more detail at accommodation and termination payments. As highlighted below,

certain of our “quick wins” proposals will be looked at in more detail as part of these reviews.

Annotated list of quick wins

“Quick wins” which have already been implemented

Some of the “quick wins” suggested in our Interim Report HMRC has told us have already been put into operation. This is good news, but as our recommendations were based on what our consultees told us, it suggests that HMRC’s communication of the items listed below could be improved:

- The ability for amended forms P11D and P11D(b) to be submitted online (quick win 29). HMRC has confirmed that it is now possible to submit P11D(b) online, and that this facility will be also available in relation to P11D for tax year 2013/14.
- Provision for the reimbursement of car fuel where the employee contributes by 6 July (quick win 7). This is already permitted, and is confirmed in HMRC guidance manuals (see EIM25660 and NIM16177).¹
- Providing new employers with a link to the relevant sections of the HMRC website when they first register, in order to raise awareness of the employee benefits and expenses issues that may be relevant to their business (quick win 43). HMRC has confirmed that new employers are sent a CD Rom which provides a link to the HMRC website. However, we may look at additional ways of raising employer awareness of employee benefits and expenses as part of our wider review on HMRC administration.
- Allowing voluntary use of form P46(Car) when a car is replaced (quick win 42). HMRC has confirmed that it is already possible to submit this form online when a car is replaced.

“Quick wins” which should be implemented in the short term

We consider that the following could and should be implemented within the next few months, subject to the availability of HMRC resources. These are:

- Voluntary payrolling of benefits in place of reporting benefits on forms P11D (quick win 1). HMRC has confirmed that it is already looking at this area, and as part of our review of HMRC administration we will be working closely with HMRC to explore what gradual changes can be phased in, alongside any legislative changes that may be necessary, in order to achieve this.
- HMRC to publish a list of benefits which they consider to be trivial, presumably with limits on the amounts (quick win 11).

¹ (Note: The wording of ITEPA s151(2) can be read as requiring the reimbursement in year – and is taken as such by some people).

- HMRC to better publicise the guidance that it has available in relation to employee benefits and expenses, and improve the access and automatic links to relevant information, in order to improve awareness and understanding for both employers and employees. This is an issue that is relevant to several of the “quick wins” that we identified, specifically:
 - o improving website guidance and cross-referencing generally, and keeping the “What’s New” pages up to date (quick win 34);
 - o improved general guidance on dispensations and PSAs, including the availability of PSAs for overseas employees and non-domiciles (quick wins 40 and 37);
 - o raising awareness that there is a list of standard items and conditions that will always qualify for dispensations (which appears at COG907120), and also raising awareness and availability of the online process for applying for dispensations (quick wins 35 and 38);
 - o improving guidance regarding the operation of the OT tax code in relation to termination payments, and the timing for issuing a P45 (quick win 23); and
 - o raising awareness that it is possible to voluntarily use form P46(Car) when a car is replaced and complete this online (quick win 42 – see also above).

- HMRC to review the published list of employments where it is “customary” to get accommodation (quick win 2).

“Quick wins” which we will be considering further with a view to implementation

The following require more detailed consideration in order to determine how they should be implemented, and / or whether they may take longer to implement, for example, where legislative change is required. We therefore intend to review these in more detail as part of our next stage of reviews into travel and subsistence, HMRC administration and “big picture” issues.

(i) “Quick wins” which we will be considering as part of our review on travel and subsistence

- Improved guidance from HMRC on what qualifies for subsistence expenses (quick win 14) and allowable expenses (quick win 32).

- A commitment from HMRC to revise and update the booklet 490 to fit better with working practices (quick win 16).

- Published guidance from HMRC on temporary workplace rules for projects carried out in phases (quick win 17).

- London no longer being treated by HMRC as one workplace regardless of travel time (quick win 18).

- Alignment of tax and NICs treatment of mileage rates over 45p (quick win 12) (note that this is also being looked at as part of our “big picture” issues review - see below).

- HMRC no longer requiring retention of fuel VAT receipts for expense claims where only a mileage rate has been claimed (quick win 13). As referred to below, however, we would hope that this can be implemented immediately if there are no legal barriers which would prevent it.

(ii) “Quick wins” which we will be considering as part of our review on HMRC Administration

- Improvements to the design, layout and guidance included in form P11D, particularly in order to address the following issues:
 - o making clear that a different form needs to be used if the employee earns less than £8,500 per year (quick win 28);
 - o removal of the current requirement to include removal expenses in 3 different places on the form (quick win 19);
 - o including a box on the P11D to tick if the relevant benefit is only being provided for that tax year (quick win 30); and
 - o including details of continuing benefits given after termination of employment where these are provided for a set period of up to two years (quick win 24).
- Improvements to the layout and design of form P87 for claiming expenses (quick win 41) and HMRC allowing all types of expenses claims to be made on one form, or online (quick win 33).
- Improving communication between HMRC officers dealing with employer and employee (quick win 27).
- Employers being permitted to sort out straightforward employee tax issues with HMRC if the employee gives consent (quick win 25).
- Allowing home broadband costs to be subject to PSAs (quick win 3).
- Allowing dispensations to be made for a tax year by 6 July of the following year (quick win 36).
- Allowing voluntary notification of in-year changes to benefits (quick win 31).
- Introducing a process where tax codes with fixed expense allowances are reviewed when employments change (quick win 26).
- Allowing adjustments in relation to AMAP reimbursements to be submitted online (quick win 39).
- HMRC no longer requiring retention of fuel VAT receipts for expense claims where only a mileage rate has been claimed (quick win 13). Further research

has shown that the European Commission infringed the Netherlands² on this issue and following the case, there was some concern that employers could not claim a VAT deduction for the petrol included in any actual mileage paid. The compromise was that the deduction would be retained but that there had to be evidence available to show that the employee had purchased at least the amount of fuel claimed. We will explore whether there is scope for easing the requirement to retain VAT receipts, such as alternative evidence, the length of time that the receipts have to be retained and improving the guidance that is given to employers and employees.

(iii) “Quick wins” which we will be considering as part of our review on “big picture” issues

- Ensuring that car fuel benefit is based upon what you put in your tank, not how you pay for it (quick win 6).
- Aligning tax and NICs mileage rates over 45p (quick win 12). As referred to above, this will also be looked at more closely as part of our review on travel and subsistence.

(iv) “Quick wins” being taken forward by other routes

The following are “quick wins” which should be taken forward by other routes, or which we intend to revisit at a later stage (for example when we look in more detail at termination payments). These are:

- Allowing car fleet operators to buy multi-year road fund licences (quick win 4). We will pass this recommendation on to the DVLA, as road tax is strictly outside the remit of the OTS.
- Exempting electricity for electric cars from the benefit rules (quick win 5) We do not think this would affect many people right now, and it would need a change in the law.
- Carrying out a proper evaluation of the cycle schemes success and looking for ways of streamlining its administration (quick win 8). This is more something for the Government to consider as part of its normal programme of evaluating tax policy changes.
- Bringing the minimum length of service down to 5 years for long service awards and allowing the exemption to apply if there has been a previous award unless that was within 5 years (quick wins 9 and 10). This could be swept up by a review of “trivial” benefits.
- Reinstatement of the “friends and family” subsistence scale rate (quick win 15). This is more of a policy change than a simplification.

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- Amending the removal expenses rules so that the 5 April requirement in s 274 ITEPA is changed to “within a set number of months of commencing new duties” (quick win 20).
- In relation to the taxation of termination payments:
 - o HMRC to review its policy on “auto PILONs” (quick win 21).
 - o Simplification of the rules for overseas employees and (quick win 22).

Whilst some of these proposals could be accused of only going part of the way in trying to respond to a particular problem where simplification is required, we consider that they would nevertheless improve the position in the interim period, pending the introduction of changes which can tackle the problem in full.

We will be reporting further on the outcome of our reviews in relation to travel and subsistence, HMRC administration and “big picture” issues in due course.

The Office of Tax Simplification
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