



HM Revenue
& Customs

Research report

Net Pay Arrangements for Flat Rate Expenses (FREs) & review of MARORS processes

Qualitative research with employers and employees to understand barriers and incentives of adopting FREs and MARORS processes

February 2015

Customer Insight & Knowledge Team

Net Pay Arrangements for Flat Rate Expenses (FREs) & review of MARORS processes

About PT Change

PT Change is a “Directorate” within HMRC’s Personal Tax (PT) line of business and is principally concerned with overseeing and bringing together for PT a Portfolio of Programmes which will help transform HMRC business, led by customer understanding.

The PT Change Portfolio will deliver all the changes to processes, structure and systems needed to deliver better services to customers and enable savings from within PT.

Contents

Research requirement (background to the project)	3
When the research took place	4
Who did the work (research agency)	4
Method, Data and Tools used, Sample	4
Main Findings	4

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Net Pay Arrangements for Flat Rate Expenses (FREs) & review of MARORS processes

Research requirement (background to the project)

HMRC's Process Transformation team identifies processes that can be improved by working differently with employers or other third parties. Their overarching aim is to reduce the need for multiple individual transactions in order to provide a better customer experience. This study explored the processes involved in claiming for **Flat Rate Expenses** and **Mileage Allowance Relief**.

Net Pay Arrangements for Flat Rate Expenses

Flat Rate Expenses (FREs) are deductions given to individuals to cover certain work expenses (such as cleaning uniforms and tools). A recent Office of Tax Simplification report regarding FRE suggested the current system should be reviewed to simplify the administration of these expenses.

In light of this, the first objective of this study was to explore how employer **Net Pay Arrangements (NPAs)** might work for FREs. Specifically, it aimed to explore if NPAs for FREs is a viable proposition by:

- Exploring how Net Pay Arrangements might work in practice to ascertain whether it could form part of a solution to the HMRC administrative challenges posed by FRE.
- Understand barriers/incentives that might prevent or encourage employers operating Net Pay Arrangements for FREs on behalf of their employees.
- Understand if there are any other options that would allow employers to administer FREs on behalf of their employees.

Optional reporting for Mileage Allowance Relief

Mileage Allowance Relief is available for some employees who use their own vehicle for business purposes. Employees who use their own vehicle can receive a tax-free contribution from their employer based on the type of vehicle they drive and the amount of miles driven. These tax-free amounts are called Approved Mileage Allowance Payments (AMAPs). If an employee is paid less than the approved amount they are entitled to claim income tax relief for the shortfall, and this is known as **Mileage Allowance Relief (MAR)**. Employees make individual MAR claims to HMRC using P87 forms.

As an alternative to employees making individual MAR claims, their employer may voluntarily agree with HMRC to operate the **Mileage Allowance Relief Optional Reporting Scheme (MARORS)**. Under the scheme, employers report "*negative amounts*" (that is, approved amount (AMAP) less amount paid (MAP)) on their P11D forms. Effectively, the amount reported to HMRC is the same as the MAR which an employee may claim. In this way, MARORS enables employees to receive the MAR they are entitled to without having to make individual claims to HMRC.

Net Pay Arrangements for Flat Rate Expenses (FREs) & review of MARORS processes

There is a desire to increase the take-up of MARORS in order to improve customer experience. In light of this, the second set of objectives for this study involved the exploration of the current **MAR** and **MARORS** processes. Specifically it aimed to understand:

- Employees' views and experiences of claiming for **MAR**, and the ways in which they thought it could be improved.
- Employers' interest and capability in using MARORS, and ways in which they thought it could be improved.

When the research took place

The research took place in December 2014 and January 2015.

Who did the work (research agency)

The research was conducted by the Social Research Institute at Ipsos MORI (an international research agency)

Method, Data and Tools used, Sample

The methodological approach adopted for this study was in-depth qualitative interviews. A total of 51 interviews were conducted, comprising: 35 employers, 13 employees, and 3 payroll agencies.

Interviews lasted around 45 minutes. Two interviews were conducted face-to-face, and 49 were conducted by telephone¹. Three interview topic guides for 'MAR employees', 'FREs and MAR Employers' (also used for the Payroll Agencies), and 'MARORS Employers' were drafted by Ipsos MORI and approved by HMRC.

- Employers' awareness of FREs and MAR claims.
- Employers' and Payroll Agencies' views on NPAs for FREs and MARORS for MAR, including perceived barriers and possible ways of dealing with these.
- Employers' experiences of MARORS.
- Employees' experiences of claiming for MAR and possible avenues for improvement.

Employees were recruited according to whether or not they claimed for MAR. Employers were recruited according to: the type of expenses claimed by their employees (FREs and/or MAR) and

¹ Please note: respondents were given the choice of face to face or telephone.

Net Pay Arrangements for Flat Rate Expenses (FREs) & review of MARORS processes

whether or not they operated MARORS. The sample was also organised according to size of the organisation² and sector³. Table 1 provides the participant profiles:

Table 1 Profile of participants by size of organisation and sector

Participant Group	Completed	Sectors
MAR Employees	10	Agriculture 1; Construction 1; Education 1; Financial and Insurance Activities 2; Human Health and Social Work Activities 1; Information and Communication 1; Membership organisation 1; Professional, Scientific and Technology 2; Real Estate Activities 1; Transport and Storage 2
Employees eligible but not claiming MAR	3	
Employers with employees claiming FRE (including those with employees claiming FRE + MAR)	25	Administrative and Support Services 1; Arts, Entertainment and Recreation 1; Construction 1; Education 4; Financial and Insurance Activities 2; Human Health and Social Work Activities 6; Information and Communication 1
Huge	8	
Large	14	
SME	3	
Employers with employees claiming FRE + MAR only (included in figures above)	21	Manufacturing 5; Professional, Scientific and Technology 1; Public Administration and Defence 1; Real Estate Activities 1; Wholesale and Retail Trade 1
Huge	7	
Large	11	
Medium	3	
MARORS	10	Administrative and Support Services 1; Education 2; Electricity and Gas Distribution 2; Human Health and Social Work Activities 1; Professional, Scientific and Technology 1; Public Administration and Defence 1; Real Estate Activities 1; Wholesale and Retail Trade 1
Huge	3	
Large	4	
SME	3	
Payroll Agencies	3	n/a
Grand Total		51

² 'Huge' = 1000+ employees; 'Large' = 250-999 employees; and 'SMEs' = 10-249 employees

³ SIC2007 Sectors

Net Pay Arrangements for Flat Rate Expenses (FREs) & review of MARORS processes

Main Findings

Employers' views on NPAs for FREs

Employers awareness of FREs was extremely limited, with very few aware that employees made claims. Queries from employees regarding FREs were largely absent, and therefore FREs was not seen as a 'problem' that needed 'addressing' by introducing new processes.

Views of NPAs for FREs: employers tended to fall into one of three broad categories⁴:

- Those who were positive towards the idea and felt that it was "worthwhile", a relatively straightforward process, and one that they would potentially implement.
- Those who were positive towards NPAs and felt potential barriers were manageable, but were unlikely to implement it because the costs outweighed potential benefits (to the employer).
- Those who felt negatively towards NPAs - either as a concept, or because they perceived too much additional work that would be unmanageable, and were adamant they would not implement NPAs.

Benefits of NPAs for FREs

- The most common potential benefit was that NPAs for FREs would ensure employees received the relief to which they were eligible (particularly those who are unaware they could claim).
- Operating NPAs for FREs could demonstrate that an employer was socially responsible and considered the welfare of their employees. However, this was seen as 'secondary' to employee benefits, and employers felt that there were no additional benefits for them.

'Conceptual Barriers' to implementing NPAs for FREs emerged which related to employers' attitudes and feelings towards NPAs (rather than their capability in administering the scheme).

- Employers (even those who liked the idea of NPAs for FREs) saw insufficient benefits to the employer and felt that it would be better to direct company resources elsewhere.
- Employers felt that too few employees claimed FREs to warrant the cost to the business.
 - These barriers appeared to be intractable problems: NPAs simply did not represent a viable proposition – particularly in the absence of obvious problems with the current process.
- Employers did not know which of their employees were eligible to make claims for FREs and also pointed out that HMRC would know what amount/level of FRE tax relief they were entitled to.
 - Employers did not want the responsibility for taking ownership of providing this tax relief, in case anything went wrong with an individual's tax position. Employers were concerned that there could be situations where the employee thought it was the employers fault things had gone wrong and they might end up owing money.

⁴ It should be noted that there were no clear differences across these groups in terms of organisational size or sector, and respondents did not frame their responses in these terms. In addition, employers who currently operated MARORS were spread across all three categories. That is, they did not express any greater appetite for NPAs than other employers.

Net Pay Arrangements for Flat Rate Expenses (FREs) & review of MARORS processes

- Most employers felt that it was the employees' responsibility to make FREs claims because it was seen as a distinct 'personal' allowance (although this was a secondary consideration).
- Employers also held concerns about potential punitive action from HMRC if they made mistakes in the application of the scheme (this potential barrier was also flagged by the Payroll Agents).

Process barriers were also articulated, which tended to relate to employers' views about their organisational capabilities and resources:

- Linked to their limited awareness of FREs, employers were concerned about how they would identify eligible employees – this was widespread, and clear guidance would be needed.
 - This barrier represented a key distinguishing factor between those employers who thought they could implement NPAs and those who were resolutely against it. Both acknowledged the challenge of identifying eligible staff, but the former group felt that it was negotiable.
- A further barrier was the perception that maintaining the NPAs scheme might be resource intensive. This was shaped by employers' views about the systems they had in place to identify starters and leavers who were eligible for FREs (and was also flagged by Payroll Agencies).
- Employers also felt there might be costs (and inconvenience) in updating their systems.
 - Payroll Agencies stated that they would not need to update their systems but any contract variations or new specifications from clients would potentially incur additional costs.

Other options that would allow employers to administer FREs on behalf of their employees were discussed; however employers did not make any recommendations.

Employers' views on MARORS

Reasons for adopting MARORS included:

- Organisational change (either due to organisations splitting or merging), which prompted process reviews and/or adoption of a single system.
- As a way of ensuring that employees received what they were entitled to.

Employers' experiences of MARORS were generally positive, and the process had:

- Reduced administrative burden and led to fewer employee queries.
 - However, this benefit was an upshot of having automated systems in place to record mileage - seen as essential for operating MARORS⁵.
- Ensured employees received tax relief to which they were entitled. Employees had expressed pleasure at this, and employers felt this improved their image.
- A small number of employers had experienced instances of employees not receiving MAR and then receiving incorrect advice from HMRC (e.g. complete a P87). These employers found it frustrating that their employees thought they (the employer) had made an error.

Improvements and suggestions for MARORS were identified:

⁵ In this way, the theme resonated strongly with the FREs employers who felt that NPAs would only be feasible if they had the necessary systems in place to manage this appropriately and effectively.

Net Pay Arrangements for Flat Rate Expenses (FREs) & review of MARORS processes

- MARORS employers indicated that the end-of-year P11D process could be time consuming because paper records have to be submitted to HMRC. Online submission would be preferable.
- Acknowledgement of receipt of paper records by HMRC would be useful.
- A dedicated MARORS helpline providing technically accurate information would be beneficial – particularly for other employers who might be considering taking up MARORS.

Views of employers not currently operating MARORS mirrored those expressed by employers in relation to NPAs for FREs. Employee benefits were recognised, but two dominant barriers remained:

- MARORS was perceived as offering insufficient benefits to the employer.
- The perception that the organisation lacked the systems to automate the recording of mileage.

Employees' experiences of MAR

Employees had become aware of MAR primarily via word-of-mouth from other employees, but also, to a lesser extent, they had been told by employers and unions.

Several reasons were offered to explain **why employees who are eligible for MAR do not claim it**:

- The most common one was that they are probably not aware of it. This reason was articulated across the majority of employee and employer interviews and also by the payroll agencies.
- Another common theme was the perception that MAR was “not worth” the time and effort because it was of insufficient financial benefit.
- There was also evidence of the MAR process being perceived as difficult. For example, one employee felt the P87 form would be too complicated for them despite having never seen it.
- Concern was also expressed about potential consequences of making mistakes (e.g. fines).

Experiences relating to MAR claims tended to split according to the route by which individuals made the claim:

- Employees described very positive experiences with the P87 form, and no improvements were suggested for it. They felt that it was straightforward and self-explanatory.
 - One potential challenge arose if employees did not have mileage records at hand, or if the information was not readily available from their employer.
- In contrast, experiences of claiming through the self-assessment form were characterised by incidences of difficulty and uncertainty due to more complicated language and layout.

Employees could see the benefit of MARORS because it would remove the need for them to the make the claims themselves.

- However, whilst one respondent felt strongly that employers should make claims on behalf of employees, a more common theme was that it is the employees' responsibility.
 - Benefits of employees making claims themselves included additional 'reassurance' as to where their money came from.

Net Pay Arrangements for Flat Rate Expenses (FREs) & review of MARORS processes

Views of online solutions

Respondents acknowledge that there would be a number of potential benefits of dealing with tax related issues via an online solution, and this would mirror the trend seen with other services (e.g. banking). A number of ideal features were outlined, along with some key requirements. In particular, HMRC would need to: ensure that any online solution used non-technical, “everyday” language; upgrade the current website so that key features (e.g. search functions) are more user friendly; and ensure security by distinguishing between official HMRC communications and phishing scams.

Conclusion

Overall, there was limited appetite for NPAs for FREs. Similarly, whilst MARORS employers reported positive experiences, non- MARORS employers expressed little appetite for adopting the scheme. From this perspective, NPAs and MARORS tended to be perceived as ‘solutions looking for problems’. However, these feelings were not universal, and uptake could potentially be encouraged if HMRC can increase awareness and clearly identify and promote the employer-benefits of these schemes.