

# Luncheon Vouchers: Repeal of Relief

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## Who is likely to be affected?

Employees, mainly working for businesses without workplace canteens, who are provided with meal vouchers, and their employers who provide them.

## General description of the measure

There is a tax and national insurance contributions (NICs) exemption on the first 15 pence per working day of a meal voucher provided by an employer to an employee. However, any benefit provided above 15 pence per working day is liable to tax and NICs. The relief was introduced in 1946 when food rationing was in place with the objective of helping individuals afford healthy meals. The benefit of this relief has been almost entirely eroded by inflation. It is therefore very low in value and no longer achieves a clear objective, and is now being repealed.

## Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

## Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

*Consultation on the abolition of 36 tax reliefs* was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

## Detailed proposal

### Operative date

This relief will cease to be available for luncheon vouchers provided on or after 6 April 2013. The mirroring NICs exemption will be repealed by regulations with effect from the same date.

### Current law

Section 89 of the Income Tax (Earnings and Pensions) Act 2003 exempts from income tax the first 15 pence per working day of a meal voucher provided by an employer to an employee. The mirroring NICs exemption is paragraph 6A of Part 5 of Schedule 3 to the Social Security (Contributions) Regulations 2001. However, any benefit provided above 15 pence per working day is liable to tax and NICs.

## Proposed revisions

Legislation will be introduced in Finance Bill 2012 removing income tax reliefs relating to luncheon vouchers provided by an employer by repeal of Section 89 of the Income Tax (Earnings and Pensions) Act 2003 to take effect from 6 April 2013. NICs regulations to take effect from the same date will repeal paragraph 6A of Part 5 of Schedule 3 to the Social Security (Contributions) Regulations 2001 and make two consequential amendments:

- regulation 40(2)(za) of the Social Security (Contributions) Regulations 2001 will also be repealed; and
- paragraph 14(3)(b) of Schedule 2 to the Social Security (Contributions) Regulations 2001 which allows the first 15 pence of the cost of a meal to be ignored will no longer be required and will also be repealed.

## Summary of impacts

<b>Exchequer impact (£m)</b>	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
<b>Economic impact</b>	This measure is not expected to have any significant economic impacts.				
<b>Impact on individuals and households</b>	<p>The measure will affect the estimated 15,000 to 20,000 individual taxpayers who currently receive luncheon vouchers from their employers. Employees working in offices without a workplace canteen are most likely to be affected.</p> <p>The impact for a basic rate taxpayer would be an increase in tax and NICs of approximately £12 a year (assuming vouchers are used on 260 working days in a year). This figure rises to approximately £20 a year for an additional rate taxpayer.</p>				
<b>Equalities impacts</b>	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
<b>Impact on business including civil society organisations</b>	<p>There is evidence that over 600 employers run luncheon voucher schemes and that luncheon vouchers are most commonly provided by smaller firms who do not have workplace canteens.</p> <p>The financial cost to employers will be a small rise in Class 1 NICs – only a maximum of £5 per annum per employee receiving vouchers (assuming vouchers are used on 260 working days in a year).</p> <p>For those who continue to provide luncheon vouchers there should be a small reduction in administrative burdens.</p> <p>The existing tax relief is only for a small fraction of the value of luncheon vouchers provided and it is very unlikely that it plays a material role in an employer's decision to offer vouchers to their employees. Therefore it is not expected that removal of the relief will make the use of luncheon vouchers less attractive for businesses or affect the provider of luncheon vouchers.</p>				
<b>Operational impact (£m) (HMRC or other)</b>	There will be a negligible operational impact for HMRC.				

<b>Other impacts</b>	Small firms: the consultation did not specifically identify anything to suggest that the abolition of this relief would have a significant impact on small firms.
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### **Monitoring and evaluation**

This change does not require monitoring or evaluation. It removes an unnecessary relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

### **Further advice**

If you have any questions about this change, please contact Renton Aloysius on 0203 300 9387 (email: [renton.aloysius@hmrc.gsi.gov.uk](mailto:renton.aloysius@hmrc.gsi.gov.uk)).

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## **2 Reduction for meal vouchers**

- (1) Section 89 of ITEPA 2003 (reduction for meal vouchers) is repealed.
- (2) Accordingly, in that Act—
  - (a) in section 87 (benefit of non-cash voucher treated as earnings), omit subsection (6), and
  - (b) in Schedule 7 (transitionals and savings), omit paragraph 18.
- (3) The amendments made by this section have effect for the tax year 2013-14 and subsequent tax years.

## **FINANCE BILL**

### **EXPLANATORY NOTE**

#### **REDUCTION FOR MEAL VOUCHERS**

##### **SUMMARY**

1. This clause repeals the exemption from income tax on the first 15 pence per working day of meal voucher provided by an employer to an employee with effect from 6 April 2013.

##### **DETAILS OF THE CLAUSE**

2. Subsection 1 provides for the repeal of section 89 Income Tax (Earnings and Pensions) Act 2003 (“ITEPA”).
3. Subsection 2 provides for consequential omission of section 87(6) (benefit of non-cash voucher treated as earnings) ITEPA and paragraph 18 in Schedule 7 (transitionals and savings) to ITEPA.
4. Subsection 3 provides that the repeal will take effect from 6 April 2013.

##### **BACKGROUND NOTE**

5. Currently where employers provide employees with meal vouchers there is an income tax exemption, and National Insurance Contributions (NICs) disregard, on the first 15 pence per working day. However, any benefit provided above 15 pence is liable to income tax and NICs.
6. The relief was originally introduced in 1946 when food rationing was in place with the objective of helping individuals afford healthy meals. It was targeted at employees working for companies without workplace canteens.
7. The benefit of the relief has largely been eroded by inflation. The relief is therefore very low in value and no longer achieves a clear objective.
8. The current availability of the relief and disregard actually creates an administrative burden to the employer in calculating the taxable benefit to be reported to Her Majesty’s Revenue and Customs because the employer has to account for income tax and NICs on any value above 15 pence.

## FINANCE BILL

9. The clause therefore repeals the income tax exemption for the first 15 pence per working day of a meal voucher provided by an employer to an employee. The amendments to the NICs legislation will be made in regulations with effect from 6 April 2013 to remove the related NICs disregard.
10. The Office of Tax Simplification was commissioned by the Chancellor to undertake a review of the reliefs and allowances available in the tax system. Following their review, the Government announced at Budget 2011 that it would repeal seven reliefs immediately and abolish a further 36 reliefs, subject to a period of consultation over the summer. The Government response to the consultation, published on 6 December 2011, confirmed the abolition of this relief.
11. If you have any questions about this change, or comments on the legislation please contact Su McLean-Tooke on 020 7147 2665 (email: [susan.mclean-tooke@hmrc.gsi.gov.uk](mailto:susan.mclean-tooke@hmrc.gsi.gov.uk)).

**2012 No. XXXX**

**SOCIAL SECURITY**

**The Social Security (Contributions) (Amendment No. X)  
Regulations 2012**

*Made* - - - - - \*\*\*  
*Laid before Parliament* \*\*\*  
*Coming into force* - - - - - 6th April 2013

The Treasury, in exercise of the powers conferred by sections 3(2), (3) and 10(9) of the Social Security Contributions and Benefits Act 1992(a) and sections 3(2), (3) and 10(9) of the Social Security Contributions and Benefits (Northern Ireland) Act 1992(b), make the following Regulations.

The Secretary of State and the Department for Social Development(c) concur in the making of these Regulations.

**Citation and commencement**

1. These Regulations may be cited as the Social Security (Contributions) (Amendment No. X) Regulations 2012 and come into force on 6th April 2013.

**Amendment of the Social Security (Contributions) Regulations 2001**

2.—(1) The Social Security (Contributions) Regulations 2001(d) are amended as follows.

(2) In regulation 40 (prescribed general earnings in respect of which Class 1A contributions not payable) omit paragraph (2)(za).

(3) For paragraph 14(3) (valuation of non-cash meal vouchers) to Schedule 2 (calculation of earnings for the purposes of earnings-related contributions in particular cases) substitute—

“(3) For the purposes of sub-paragraph (2) the chargeable expense shall be reduced by any part of that which the employed earner makes good to the person incurring it.”.

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- (a) 1992 c. 4. Section 3 has been amended. The relevant amendment is that made by paragraph 3 of Schedule 3 to the Social Security Contributions (Transfer of Functions, etc.) Act 1999 (c.2). Section 10 was substituted by section 74(2) of the Child Support, Pensions and Social Security Act 2000 (c. 19: “the 2000 Act”) and subsection (9) was amended by paragraph 174 of Schedule 6 to the Income Tax (Earnings and Pensions) Act 2003 (c. 1: “ITEPA 2003”).
- (b) 1992 c. 7. Section 3 has been amended. The relevant amendment is that made by paragraph 4 of Schedule 3 to the Social Security Contributions (Transfer of Functions, etc.) (Northern Ireland) Order 1999 (S.I. 1999/671). Section 10 was substituted by section 78(2) of the 2000 Act and subsection (9) was amended by paragraph 195 of Schedule 6 to ITEPA 2003.
- (c) The functions of the Department of Health and Social Services for Northern Ireland under the Social Security Contributions and Benefits (Northern Ireland) Act 1992 (c. 7) were transferred to the Department for Social Development by Article 8(b) of, and Part 2 of Schedule 6 to the Departments (Transfer and Assignment of Functions) Order (Northern Ireland) 1999 (S.R. (NI) 1999 No. 481).
- (d) S.I. 2001/1004, amended by S.I. 2001/2412 and 2003/2085; there are other amending instruments but none is relevant.

(4) In Part 5 of Schedule 3 (certain non-cash vouchers to be disregarded as payments in kind for the purposes of earning-related contributions) omit paragraph 6A (meal vouchers).

### **Amendment of the Social Security (Contributions) (Amendment No. 5) Regulations 2001**

**3.** In the Social Security (Contributions) (Amendment No. 5) Regulations 2001(a) omit—

- (a) regulation 3(2)(a);
- (b) regulation 4; and
- (c) regulation 5(2)(b).

Date *Name*  
*Name*  
Two of the Lords Commissioners of Her Majesty's Treasury

The Secretary of State concurs  
Signed by authority of the Secretary of State for Work and Pensions

Date *Name*  
Minister of State  
Department for Work and Pensions

The Department for Social Development concurs  
Sealed with the Official Seal of the Department for Social Development on \*\*



Date *Name*  
A senior officer of the Department for Social Development

#### **EXPLANATORY NOTE**

*(This note is not part of the Regulations)*

These Regulations amend the Social Security (Contributions) Regulations 2001 (S.I. 2001/1004) (“the 2001 Regulations”).

The 2001 Regulations provide for certain payments to be disregarded in the calculation of earnings for National Insurance purposes. Regulation 2 removes from the 2001 Regulations the disregard from Class 1 National Insurance contributions on the first 15 pence per working day of a meal voucher provided by an employer to an employee.

The provisions of the 2001 Regulations removed by regulation 2 of these Regulations were inserted by, or amended by, a later statutory instrument. Regulation 3 makes a corresponding amendment to that later instrument in order to make sure that redundant legislation is removed from the statute book.

A Tax Information and Impact Note covering this instrument was published on 6th December 2011 alongside the autumn statement and is available on the HMRC website at <http://www.hmrc.gov.uk/thelibrary/tiins.htm>. It remains an accurate summary of the impacts that apply to this instrument.



**EXPLANATORY MEMORANDUM TO  
THE SOCIAL SECURITY (CONTRIBUTIONS) (AMENDMENT NO. X)  
REGULATIONS 2012**

**2012 No. [xxx]**

**1.** This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs (HMRC) on behalf of the Treasury and is laid before Parliament by Command of Her Majesty.

**2. Purpose of the instrument**

2.1 This instrument amends the Social Security (Contributions) Regulations (S. I. 2001/1004) (the Principal Regulations) to remove the National Insurance contributions (NICs) disregard from Class 1 NICs on the first 15 pence per working day of a meal voucher provided by an employer to an employee.

**3. Matters of special interest to the Joint Committee on Statutory Instruments**

3.1 None.

**4. Legislative Context**

4.1 These Regulations amend the Principal Regulations to remove a NICs disregard which is no longer considered necessary as a result of a review of tax reliefs by the Office of Tax Simplification (OTS).

4.2 Regulation 2 removes the disregard from Class 1 NICs on the first 15 pence per working day of a meal voucher provided by an employer to an employee.

4.3 Regulation 3 amends the Social Security (Contributions) (Amendment No. 5) Regulations 2001 (S. I. 2001/2412) to make sure that redundant legislation is removed from the statute book.

**5. Territorial Extent and Application**

5.1 This instrument applies to all of the United Kingdom.

**6. European Convention on Human Rights**

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

**7. Policy background**

- *What is being done and why*

7.1 The OTS, an independent body set up in July 2010, was asked by the Government to consider whether tax reliefs contained within the taxes legislation still served any purpose. The OTS identified a number of reliefs where the policy rationale had weakened over time, were otiose or little used, created distortions in the

tax system or were complex for business and/or HMRC to administer which they thought could be abolished.

7.2 Following the OTS's recommendations to the Chancellor, the Treasury consulted on the abolition of 36 reliefs, including the relief for luncheon vouchers.

7.3 There is a tax exemption and a mirroring NICs disregard on the first 15p per working day of a meal voucher provided by an employer to an employee. However, any benefit provided above 15p per working day is liable to tax and NICs. The relief was introduced in 1946 when food rationing was in place with the objective of helping individuals afford healthy meals. It was targeted at employees working for companies without workplace canteens.

7.4 The benefit of the relief has been almost entirely eroded by inflation. The relief is therefore very low in value and no longer achieves a clear objective. It also causes an additional administrative burden to the employer in calculating the taxable benefit to be reported to HMRC because the employer has to account for tax and NICs on any value above 15p.

7.5 Responses to the consultation provided no compelling reason for continuing the relief and associated NICs disregard. The Government's view is that the evidence provided by respondents suggests that employers are still willing to issue luncheon vouchers despite the relief being worth only 15p. Therefore, the relief is a deadweight cost and should be abolished. It was therefore confirmed it should be abolished from 6th April 2013.

7.6 The Government announced the changes on 6th December 2011. These Regulations give effect to that announcement.

- ***Consolidation***

7.7 There are currently no plans to consolidate the Principal Regulations.

## **8. Consultation outcome**

8.1 The Treasury consulted on the impact of removing 36 reliefs identified by the OTS in May 2011.

8.2 A total of 78 consultation responses were received from individuals, businesses and representative bodies. In general, interested parties were fully supportive of the OTS work in simplifying the complexities of the UK tax code; and agreed in removing reliefs where the policy rationale is no longer relevant.

8.3 Respondents to the relief for Luncheon Vouchers argued that employers still continued to use luncheon vouchers with total issuance being between £7-£8m a year; and that 75 per cent of this amount is subject to the 15p tax relief. It was further argued that repeal of this relief will impact upon luncheon voucher suppliers as well as the hospitality industry.

8.4 The Government has considered the arguments made. On the basis that employers are still willing to issue luncheon vouchers despite the relief being worth as little as 15p, the Government maintains the view that this relief has no practical

application. The Government published a detailed response to the consultation which can be viewed in the Consultation Response Document on the xxxx website [link to be added].

8.5 In accordance with the Government's Tax Consultation Framework (<http://www.hmrc.gov.uk/consultations/tax-consultation-framework.pdf>), HMRC has published this instrument in draft.

## **9. Guidance**

9.1 These Regulations do not impose any new obligations.

9.2 The Treasury has published a response to the consultation confirming which reliefs are to be abolished and those that are to be retained. The relevant HMRC guidance in the "CWG 2 Employer Further Guide to PAYE and NICs" and on HMRC's website will be amended to reflect these Regulations.

## **10. Impact**

10.1 There will be an impact on business, charities or voluntary bodies that provide luncheon vouchers to their employees.

10.2 There is no impact on the public sector.

10.3 A Tax Information and Impact Note covering this instrument was published on 6th December 2011 alongside the autumn statement and is available on the HMRC website at <http://www.hmrc.gov.uk/thelibrary/tiins.htm>. It remains an accurate summary of the impacts that apply to this instrument.

## **11. Regulating small business**

11.1 The legislation applies to small business.

11.2 Some small businesses (those with fewer than 20 employees) will be affected by the proposals if they provide luncheon vouchers because they will have to record the value of the benefit if they continue to provide it.

11.3 All businesses were able to respond to the Treasury consultation on the impact of removing the relief. However, there is no evidence from the consultation to suggest that the abolition of the relief will have a significant impact on small business.

## **12. Monitoring & review**

12.1 HMRC will monitor the practical effects of this legislation to ensure the objectives of it are met.

## **13. Contact**

Raj Nayyar at HMRC, Tel: 0207 147 2521 or e-mail: [raj.nayyar@hmrc.gsi.gov.uk](mailto:raj.nayyar@hmrc.gsi.gov.uk) can answer any queries regarding the instrument.