



Real time collection of tax on benefits in kind and expenses through voluntary payrolling

Who is likely to be affected?

Employers, employees, payroll providers and payroll software providers.

General description of the measure

The measure will introduce primary legislation to allow HM Revenue & Customs (HMRC) to make changes to the Pay As You Earn (PAYE) Regulations to provide for voluntary payrolling of benefits in kind (BiKs).

Policy objective

Payrolling benefits in kind provides the opportunity to remove or reduce employers' obligations to send returns to HMRC. It can also make the system of taxing BiKs easier for employees to understand and more efficient at collecting the right amount of tax in real time.

Background to the measure

The Office of Tax Simplification (OTS) recommended the introduction of legislative framework to allow employers to payroll some or all of their benefits and expenses on a voluntary basis.

At Budget 2014, the Chancellor announced a number of measures aimed at simplifying the administration of benefits in kind and expenses, including payrolling.

During summer 2014, HMRC carried out a consultation on the OTS's recommendation to gather evidence, experiences and views on payrolling with a view to the government introducing legislation to allow all employers the option to payroll benefits in kind from the 2016-17 tax year.

Autumn Statement 2014 announced that the Government will introduce enabling legislation in Finance Bill 2015. This will be followed by further technical discussions with stakeholders on the detailed design of the scheme. The PAYE Regulations will then be amended to allow employers to payroll voluntarily car, car fuel, medical insurance and subscriptions such as gym membership from the 2016-17 tax year.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2016.

Current law

The benefits in kind that an employer provides to its employees are liable to income tax. Part 3 of the Income Tax (Earnings and Pensions) Act (ITEPA) 2003 charges BiKs to tax as earnings.

Part 11 of ITEPA provides for the PAYE system, where employers deduct income tax at source from employees' salaries. Part 11 requires HMRC to set out the detailed provisions for PAYE in Regulations. These are the Income Tax (PAYE) Regulations 2003 (2003/2682) (the "Regulations").

Where HMRC knows that a benefit in kind is available to an employee, it uses its powers in Part 2 of Regulation 19 of the Regulations to amend the employee's PAYE tax code. The intention is to deduct the right amount of tax, as far as possible from the employee's salary for the tax year taking account of the value of the BiK.

Part 4 of Chapter 2, Regulation 85 of the Regulations requires employers to send HMRC annual returns of other earnings, including BiKs.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend Part 11 of ITEPA to allow HMRC to amend the Regulations to set out the detailed framework for voluntary payrolling. During the 2015-16 tax year, HMRC will amend the Regulations so that employers can opt to payroll benefits in kind from the 2016-17 tax year.

Where an employer opts to payroll benefits in kind for cars, car fuel, medical insurance and gym membership, their obligation to make a return (form P11D) under Part 4 of Chapter 2, Regulation 85 of the Regulations for these benefits will be disapplied. Employers will report the value of these benefits in kind through Real Time Information. Regulations will determine the value equivalent as PAYE income which is liable to deduction using the PAYE Tax Tables.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-10	-5	-10	-10	-10
	<p>These figures are set out in Table 2.1 of Autumn Statement 2014, as <i>Office of Tax Simplification: Review of Expenses</i>, and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.</p> <p>These figures also incorporate the Exchequer impact of <i>Income tax: abolition of the £8,500 threshold for benefits in kind</i> and <i>Income tax: statutory exemption for trivial benefits in kind</i>.</p>					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	The measure is not expected to have an impact on family formation, stability or breakdown.					
Equalities impacts	No equalities impacts have been identified.					
Impact on business including civil society organisations	<p>The administrative burden will reduce for employers who adopt voluntary payrolling as they will no longer have to submit P11Ds in respect of payrolled benefits and their reporting burden will be significantly eased. Employers who are currently payrolling on an informal basis will also benefit, as they will no longer have to submit P11Ds for the benefits covered by the measure.</p> <p>The estimates of the impact are dependent on the assumption that the number of employers who decide to take up voluntary payrolling will increase over four years.</p> <p>There will be a one-off cost for employers adopting payrolling reflecting the need for employers to familiarise themselves with guidance, register with HMRC and make changes to their payroll system.</p>					

		Cost	Time Period (yrs)
	Compliance Costs		
	One-off Costs	negligible	N/A
	Average Annual Costs	N/A	N/A
	Total Costs (PV)	negligible	N/A
	Compliance Benefits		
	One-off Benefit	N/A	N/A
	Average Annual Benefit	£13.8m	5
	Total Benefit (PV)	£64.0m	N/A
	Net Benefit (NPV)	£62.2m	N/A
	Impact on Administrative Burden (included in Net Benefit)		
	Increase	Decrease	Net Impact
	£0	£9.0m	-£9.0m
	Note: The impact on administrative burden (included in net benefit) represents the expected costs and benefits for the first year only. The £13.8 million included in compliance costs represent the average annual amount over the five years.		
Operational impact (£m) (HMRC or other)	It is anticipated that there will be costs for HMRC associated with this change. The extent of these are not yet known as work is being carried out to determine what changes are required to HMRC's IT and processes. The IT change is expected to exceed the minor change advisory limit of £300,000.		
Other impacts	<p><u>Small and micro business assessment</u>: the impact of this measure on small and micro businesses is not anticipated to differ from that on large businesses.</p> <p>Other impacts have been considered and none have been identified.</p>		

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the government's package of employee BiKs and expenses simplifications, through communication with taxpayer groups affected by the measures.

Further advice

If you have any questions about this change, please contact the Employment Income Policy Team (employmentincome.policy@hmrc.gsi.gov.uk).