



## Income tax: abolition of the £8,500 threshold for benefits in kind

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### Who is likely to be affected?

Employees who earn at a rate of less than £8,500 a year and who have certain benefits in kind (BiKs) or expenses provided tax free. This will only result in an income tax charge on those BiKs and expenses for people whose total income, from all sources, exceeds the Personal Allowance (currently £10,000 for 2014-15).

Employers who are providing BiKs or expenses to employees earning at a rate of less than £8,500 a year will also be affected by the measure.

### General description of the measure

The measure abolishes the £8,500 threshold that determines whether employees pay income tax on all of their BiKs and expenses.

Employers will have additional National Insurance contributions (NICs) to pay on the BiKs and certain expenses provided to employees earning at a rate of less than £8,500 a year.

### Policy objective

This measure simplifies the administration of employee BiKs and expenses as it removes the need for form P9D. Employers who do not voluntarily 'payroll' their BiKs (that is, include BiKs when they calculate Pay As You Earn tax deductions from their employees' pay) will now report them all to HM Revenue & Customs (HMRC) by just one method (P11D). Employers will also no longer need to continually monitor an employee's earnings and BiKs to see whether they fall above or below the threshold.

The vast majority of employees will now be treated in the same way for income tax and NICs on their BiKs and expenses, whatever the level of the employee's earnings. It also provides equity since it means that the tax and NICs treatment of BiKs and expenses is the same for employees whether they have a single, or multiple employments.

A new exemption is being introduced for ministers of religion earning at a rate of less than £8,500 a year to protect their current position and ensure that most BiKs they receive will remain exempt for both income tax and NICs.

A new exemption is also introduced for board and lodging provided to carers in the home of the person they care for. This is to ensure that care and support employers are not involved in additional administration of this minor BiK that may result from the removal of the £8,500 threshold.

### Background to the measure

The measure was announced at Budget 2014 as part of a package aimed at simplifying the administration of employee BiKs and expenses. This followed the Office for Tax Simplification's review of employee BiKs and expenses, and recommendations made in their interim and second reports published in August 2013, and January 2014.

A consultation document entitled *Abolition of the £8,500 threshold and form P9D* was published on 18 June 2014 and the consultation ran until 9 September 2014. A summary of responses to the public consultation has also been published on the GOV.uk website today.

# Detailed proposal

## Operative date

This measure will have effect for BiKs and expense payments for employees and employers where the employee is earning at a rate of less than £8,500 a year from 6 April 2016.

## Current law

Under 'the benefits code' in Part 3 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003), BiKs and expenses payments are treated as "earnings" and so are charged to income tax.

Section 216 Part 3 ITEPA 2003 exempts employees in lower paid (or 'excluded') employment from being charged to tax under certain parts of the benefits code. This means that an employee in a lower paid employment pays tax only on certain BiKs, these include living accommodation, vouchers and credit-tokens.

Section 10 Social Security Contributions and Benefits Act 1992 creates a Class 1A NICs liability for the employer on the same BiKs (which do not attract a Class 1 NICs liability) that have an income tax charge under ITEPA 2003.

Section 217 Part 3 ITEPA 2003 sets the threshold for a lower paid (or excluded) employment at an earnings rate of less than £8,500 for the year.

Regulation 85 of the Income Tax (PAYE) Regulations 2003 (2003/2682) provides that an employer must make a return to HMRC before 7 July following the end of a tax year. This return must show details of the BiKs and expenses for each employee to whom the benefits code applies.

Regulations 86 and 87 define the information to be provided by the employer to HMRC for each employee in the return.

Regulation 86 provides that an employer is required to report to HMRC BiKs and expenses that apply to all employees whatever their earnings, amongst these are living accommodation, vouchers and credit tokens.

Regulation 87 outlines the information that an employer is required to make to HMRC in respect of all other BiKs and expenses which apply only to those employees who are earning at a rate of £8,500 or more a year.

## Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend ITEPA 2003 to abolish the £8,500 threshold by repealing Chapter 11 of Part 3 of ITEPA 2003 (exclusion of lower paid employments from parts of the benefits code). This will mean that all employees will be taxed on their BiKs and expenses in the same way.

Section 10 of the Social Security Contributions and Benefits Act 1992 will also be amended to remove the reference to 'excluded' (or lower paid) employment. This will align the payment of NICs by the employer with the income tax treatment.

The exemptions currently provided for in section 290A and section 290B ITEPA 2003 for ministers of religion in lower paid employment will be retained. This will mean that the reimbursement of accommodation costs, such as heat, light and water, or the payment of an allowance towards these costs for ministers of religion earning at a rate of less than £8,500 will remain exempt from income tax. Similarly, there will be no NICs liability in these circumstances.

In addition a new exemption will be introduced to cover other BiKs for ministers of religion earning at a rate of less than £8,500 which will maintain the current exemption to income tax and NICs that applies to these BiKs.

A further exemption will also be introduced for employees who work as carers in respect of board and lodging that is provided in the home of the person who they are caring for. This will mean that the carer will be completely exempt from income tax on this BiK, and the employer or for the person who is providing the board and lodging (depending where the liability falls) will be completely exempt from NICs on the provision of this BiK.

The changes for both tax and NICs will have effect from 6 April 2016. Changes will also be made to the Regulations governing the P9D and P11D returns employers make to HMRC of their employees BiK and expenses. These regulations will be amended and published separately during 2015.

### 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: statutory exemption for trivial benefits-in-kind</i> and <i>Real time collection of tax on benefits in kind and expenses through voluntary payrolling</i>.</p>					
<b>Economic impact</b>	The measure is not expected to have any significant economic impacts.					
<b>Impact on individuals, households and families</b>	<p>Employees currently earning at a rate of less than £8,500 a year with BiKs or taxable expenses from their employment whose total income exceeds the Personal Allowance (currently £10,000) will pay additional income tax on the value of their BiKs and taxable expenses.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
<b>Equalities impacts</b>	This measure is not expected to have any disproportionate effect on people with protected characteristics.					
<b>Impact on business including civil society organisations</b>	<p>The measure will reduce the administrative burden on employers as they will no longer need to continually monitor an employee's earnings and BiKs to see if they fall below or above the £8,500 threshold. It is estimated that these savings will outweigh the additional cost of submitting P11D forms for the small number of BiKs received by employees whose earnings are below the threshold.</p> <p>Overall the package of reforms announced at Autumn statement 2014 which includes the real time collection of income tax through voluntary payrolling, and the general expense exemption, is expected to reduce the number of P11D returns employers need to make to HMRC.</p>					

	Cost	Time Period (yrs)
<b>Compliance Costs</b>		
One-off Costs	N/A	N/A
Average Annual Costs	£1.8m	5
Total Costs (PV)	£8.4m	N/A
<b>Compliance Benefits</b>		
One-off Benefit	N/A	N/A
Average Annual Benefit	£4.5m	5
Total Benefit (PV)	£21.1m	N/A
<b>Net Benefit (NPV)</b>	£12.6m	N/A
<b>Impact on Administrative Burden</b> (included in Net Benefit)		
<b>Increase</b>	<b>Decrease</b>	<b>Net Impact</b>
£2.1m	£4.5m	-£2.4m
<p>Note: The impact on administrative burden (included in net benefit) represents the expected costs and benefits for the first year only. The £1.8 million cost and £4.5 million benefit included in compliance costs represent the average annual amounts over the five years.</p>		
<b>Operational impact (£m) (HMRC or other)</b>	HMRC will need to make small changes to two IT systems to de-commission the facility to capture P9D information. It is anticipated that the cost of making these IT changes will be in the region of £250,000.	
<b>Other impacts</b>	<p><u>Small and micro business assessment</u>: the impact of this measure on small 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 affected taxpayer groups.

### Further advice

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

## **1 Extension of benefits code except in relation to certain ministers of religion**

- (1) Omit Chapter 11 of Part 3 of ITEPA 2003 (taxable benefits: exclusion of lower-paid employments from parts of benefits code).
- (2) In Part 4 of that Act (employment income: exemptions), after section 290B insert –

### **“290C Provisions of benefits code not applicable to lower-paid ministers of religion**

- (1) This section applies where a person is in employment which is lower-paid employment as a minister of religion in relation to a tax year.
- (2) No liability to income tax arises in respect of the person in relation to the tax year by virtue of any of the following Chapters of the benefits code –
  - (a) Chapter 3 (taxable benefits: expenses payments);
  - (b) Chapter 6 (taxable benefits: cars, vans and related benefits);
  - (c) Chapter 7 (taxable benefits: loans);
  - (d) Chapter 10 (taxable benefits: residual liability to charge).
- (3) Subsection (2) –
  - (a) means that in any of those Chapters a reference to an employee does not include an employee whose employment is within the exclusion in that subsection, if the context is such that the reference is to an employee in relation to whom the Chapter applies, but
  - (b) does not restrict the meaning of references to employees in other contexts.
- (4) Subsection (2) has effect subject to –
  - (a) section 188(2) (discharge of loan: where employment becomes lower-paid), and
  - (b) section 290G (employment in two or more related employments).

### **290D Meaning of “lower-paid employment as a minister of religion”**

- (1) For the purposes of this Part an employment is “lower-paid employment as a minister of religion” in relation to a tax year if –
  - (a) the employment is direct employment as a minister of a religious denomination, and
  - (b) the earnings rate for the employment for the year (calculated under section 290E) is less than £8,500.
- (2) An employment is not “direct employment” for the purposes of subsection (1)(a) if it is an employment which is treated as existing under –

- (a) section 56(2) (deemed employment of worker by intermediary),
- (b) section 61G(2) (deemed employment of worker by managed service company), or
- (c) section 554Z2(1) (deemed employment in case of relevant step for purposes of Chapter 2 of Part 7A (employment income provided through third parties)).

(3) Subsection (1) is subject to section 290G.

#### **290E Calculation of earnings rate for a tax year**

(1) For any tax year the earnings rate for an employment is to be calculated as follows –

##### *Step 1*

Find the total of the following amounts –

- (a) the total amount of the earnings from the employment for the year within Chapter 1 of Part 3 (earnings),
- (b) the total of any amounts that are treated as earnings from the employment for the year under the benefits code (see subsections (2) and (3)), and
- (c) the total of any amounts that are treated as earnings from the employment for the year under Chapter 12 of Part 3 (other amounts treated as earnings),

excluding any exempt income, other than any attributable to section 290A or 290B (accommodation outgoings of ministers of religion).

##### *Step 2*

Add to that total any extra amount required to be added for the year by section 290F (extra amount to be added in connection with a car).

##### *Step 3*

Subtract the total amount of any authorised deductions (see subsection (4)) from the result of step 2.

##### *Step 4*

The earnings rate for the employment for the year is given by the formula –

$$R \times \frac{Y}{E}$$

where –

R is the result of step 3,

Y is the number of days in the year, and

E is the number of days in the year when the employment is held.

- (2) Section 290C(2) (provisions of benefits code not applicable to lower-paid ministers of religion) is to be disregarded for the purpose of determining any amount under step 1.
- (3) If the benefit of living accommodation is to be taken into account under step 1, the cash equivalent is to be calculated in accordance with section 105 (even if the cost of providing the accommodation exceeds £75,000).
- (4) For the purposes of step 3 “authorised deduction” means any deduction that would (assuming it was an amount of taxable earnings) be allowed from any amount within step 1 under –

section 346 (employee liabilities),  
section 370 (travel costs and expenses where duties performed abroad: employee's travel),  
section 371 (travel costs and expenses where duties performed abroad: visiting spouse's, civil partner's or child's travel),  
section 373 (non-domiciled employee's travel costs and expenses where duties performed in UK),  
section 374 (non-domiciled employee's spouse's, civil partner's or child's travel costs and expenses where duties performed in UK),  
section 376 (foreign accommodation and subsistence costs and expenses (overseas employments)),  
section 713 (payroll giving to charities),  
sections 188 to 194 of FA 2004 (contributions to registered pension schemes), or  
section 262 of CAA 2001 (capital allowances to be given effect by treating them as deductions).

#### **290F Extra amounts to be added in connection with a car**

- (1) The provisions of this section apply for the purposes of section 290E in the case of a tax year in which a car is made available as mentioned in section 114(1) (cars, vans and related benefits) by reason of the employment.
- (2) Subsection (3) applies if in the tax year –
  - (a) an alternative to the benefit of the car is offered, and
  - (b) the amount that would be earnings within Chapter 1 of Part 3 if the benefit of the car were to be determined by reference to the alternative offered exceeds the benefit code earnings (see subsection (4)).
- (3) The amount of the excess is an extra amount to be added under step 2 in section 290E(1).
- (4) For the purposes of subsection (2) “the benefit code earnings” is the total for the year of –
  - (a) the cash equivalent of the benefit of the car (calculated in accordance with Chapter 6 of Part 3 (taxable benefits: cars, vans etc)), and
  - (b) the cash equivalent (calculated in accordance with that Chapter) of the benefit of any fuel provided for the car by reason of the employment.
- (5) Section 290C(2) (provisions of benefits code not applicable to lower-paid ministers of religion) is to be disregarded for the purpose of determining any amount under this section.

#### **290G Related employments**

- (1) This section applies if a person is employed in two or more related employments.
- (2) None of the employments is to be regarded as lower-paid employment as a minister of religion in relation to a tax year if –

- (a) the total of the earnings rates for the employments for the year (calculated in each case under section 290E) is £8,500 or more, or
  - (b) any of them is an employment falling outside the exclusion contained in section 290C(2) (provisions of benefits code not applicable to lower-paid ministers of religion).
- (3) For the purposes of this section two employments are “related” if –
- (a) both are with the same employer, or
  - (b) one is with a body or partnership (“A”) and the other is either –
    - (i) with an individual, partnership or body that controls A (“B”), or
    - (ii) with another partnership or body also controlled by B.
- (4) Section 69 (extended meaning of “control”) applies for the purposes of this section as it applies for the purposes of the benefits code.”
- (3) Schedule 1 contains amendments relating to subsections (1) and (2).
- (4) The amendments made by this section and Schedule 1 have effect for the tax year 2016-17 and subsequent tax years.

## 2 Exemption from income tax for board or lodging provided to carers

- (1) Part 4 of ITEPA 2003 (employment income: exemptions) is amended as follows.
- (2) In Chapter 8 (exemptions: special kinds of employees), after section 306 insert –

### *“Carers*

#### **306A Carers: board and lodging**

- (1) For the purposes of this section an individual is employed as a home care worker if the duties of the employment consist wholly or mainly of the provision of personal care to another individual (“the recipient”) at the recipient’s home, in a case where the recipient is in need of personal care because of –
- (a) old age,
  - (b) mental or physical disability,
  - (c) past or present dependence on alcohol or drugs,
  - (d) past or present illness, or
  - (e) past or present mental disorder.
- (2) No liability to income tax arises by virtue of Chapter 10 of Part 3 (taxable benefits: residual liability to charge) in respect of the provision of board or lodging (or both) to an individual employed as a home care worker if the provision is –
- (a) on a reasonable scale,
  - (b) at the recipient’s home, and
  - (c) by reason of the individual’s employment as a home care worker.”
- (3) In section 228 (effect of exemptions on liability under provisions outside Part 2), in subsection (2)(d), after “291” insert “and 306A”.



- (4) The amendments made by this section have effect for the tax year 2016-17 and subsequent tax years.

## SCHEDULE 1

Section 1

## EXTENSION OF BENEFITS CODE EXCEPT IN RELATION TO CERTAIN MINISTERS OF RELIGION

## PART 1

## AMENDMENTS OF ITEPA 2003

- 1 ITEPA 2003 is amended as follows.
- 2 In section 7 (meaning of “employment income”, “general earnings” and “specific employment income”), in subsection (5)(b), for “11” substitute “10”.
- 3 In section 17 (UK resident employees: treatment of earnings for year in which employment not held), in subsection (4), for “11” substitute “10”.
- 4 In section 30 (remittance basis and non-UK resident employees: treatment of earnings for year in which employment not held), in subsection (4), for “11” substitute “10”.
- 5 (1) Section 63 (the benefits code) is amended as follows.
  - (2) In subsection (1) –
    - (a) at the end of the entry relating to Chapter 7 insert “and”, and
    - (b) omit the entry relating to Chapter 11 and the “and” before it.
  - (3) Omit subsections (2) to (4).
- 6 In section 66 (meaning of “employment” and related expressions), after subsection (4) insert –
  - “(5) In the benefits code “lower-paid employment as a minister of religion” has the same meaning as in Part 4 (see section 290D).”
- 7 In section 148 (reduction of cash equivalent where car is shared), omit subsection (3).
- 8 In section 157 (reduction of cash equivalent where van is shared), omit subsection (3).
- 9 (1) Section 169 (car available to more than one family member etc employed by same employer) is amended as follows.
  - (2) For subsection (2)(b) substitute –
    - “(b) M’s employment is lower-paid employment as a minister of religion.”
  - (3) Omit subsections (3) and (4).
- 10 (1) Section 169A (van available to more than one family member etc employed by same employer) is amended as follows.
  - (2) For subsection (2)(b) substitute –

“(b) M’s employment is lower-paid employment as a minister of religion.”

- (3) Omit subsections (3) and (4).
- 11 In section 184 (interest treated as paid), in subsection (3), for the words following “any of” substitute “the following Chapters of this Part –  
Chapter 3 (taxable benefits: expenses payments);  
Chapter 6 (taxable benefits: cars, vans and related benefits);  
Chapter 10 (taxable benefits: residual liability to charge).”
- 12 (1) Section 188 (loan released or written off: amount treated as earnings) is amended as follows.
- (2) In subsection (2), for “an excluded employment”, in each place where it occurs, substitute “lower-paid employment as a minister of religion”.
- (3) In subsection (3)(a), for “excluded employment” substitute “lower-paid employment as a minister of religion”.
- 13 In section 228 (effect of exemptions in Part 4 on liability under provisions outside Part 2), in subsection (2)(d), for “290 and” substitute “290, 290C to”.
- 14 (1) Section 239 (payments and benefits connected with taxable cars and vans and exempt heavy goods vehicles) is amended as follows.
- (2) In subsection (8), for “excluded employment” substitute “lower-paid employment as a minister of religion (see section 290D)”.
- (3) Omit subsection (9).
- 15 In section 266 (exemption of non-cash vouchers for exempt benefits), in subsection (5), for “excluded employment” substitute “lower-paid employment as a minister of religion”.
- 16 In section 267 (exemption of credit-tokens used for exempt benefits), in subsection (1)(b), for “excluded employment” substitute “lower-paid employment as a minister of religion”.
- 17 In section 269 (exemption where benefits or money obtained in connection with taxable car or van or exempt heavy goods vehicle), in subsection (4)(b), for “excluded employment” substitute “lower-paid employment as a minister of religion”.
- 18 In section 290 (accommodation benefits of ministers of religion), in subsection (2), for “excluded employment” substitute “lower-paid employment as a minister of religion (see section 290D)”.
- 19 In section 290A (accommodation outgoings of ministers of religion) –
- (a) in subsection (1), for “a religious denomination” substitute “religion”,
- (b) in subsection (3), omit the definition of “lower-paid employment”, and
- (c) in the heading of the section, after “outgoings of” insert “lower-paid”.
- 20 In section 290B (allowances paid to ministers of religion in respect of accommodation outgoings) –

- (a) in subsection (1), for “a religious denomination” substitute “religion”,
  - (b) in subsection (3), for “and “lower-paid employment” have the same meanings” substitute “has the same meaning”, and
  - (c) in the heading of the section, after “to” insert “lower-paid”.
- 21 (1) Part 2 of Schedule 1 (index of defined expressions) is amended as follows.
- (2) Omit both entries relating to “excluded employment” and the entry relating to “lower-paid employment”.
- (3) At the appropriate place insert –

“lower-paid employment as a minister of religion (in the benefits code)	section 66(5)
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lower-paid employment as a minister of religion (in Part 4)	section 290D”.
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- 22 (1) Paragraph 17 of Schedule 7 (transitionals and savings: benefits code) is amended as follows.
- (2) In sub-paragraph (2), for “the Chapters” to “lower-paid employments)” substitute “Chapters 3, 6, 7 and 10 of the benefits code (provisions not applicable before the tax year 2016-17 to lower-paid employments)”.
- (3) Omit sub-paragraph (4).

## PART 2

### AMENDMENTS OF OTHER ENACTMENTS

- 23 (1) The Social Security Contributions and Benefits Act 1992 is amended as follows.
- (2) In section 10 (Class 1A contributions: benefits in kind etc), in subsection (1)(b)(ii), for “an excluded employment” substitute “lower-paid employment as a minister of religion”.
- (3) In section 10ZB (non-cash vouchers provided by third parties), in subsection (2) –
- (a) in paragraph (a), for “an excluded employment for the purposes of the benefits code” substitute “lower-paid employment as a minister of religion”, and
  - (b) in paragraph (b) and in the words following that paragraph, for “an excluded employment” substitute “lower-paid employment as a minister of religion”, in both places.
- (4) In section 122 (interpretation of Parts 1 to 6), in subsection (1) –
- (a) omit the entry relating to “excluded employment”, and
  - (b) at the appropriate place insert –
    - ““lower-paid employment as a minister of religion” has the meaning given by section 290D of ITEPA 2003;”.

*Part 2 – Amendments of other enactments*

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- 24 (1) The Social Security Contributions and Benefits (Northern Ireland) Act 1992 is amended as follows.
- (2) In section 10 (Class 1A contributions: benefits in kind etc), in subsection (1)(b)(ii), for “an excluded employment” substitute “lower-paid employment as a minister of religion”.
- (3) In section 10ZB (non-cash vouchers provided by third parties), in subsection (2) –
- (a) in paragraph (a), for “an excluded employment for the purposes of the benefits code” substitute “lower-paid employment as a minister of religion”, and
- (b) in paragraph (b) and in the words following that paragraph, for “an excluded employment” substitute “lower-paid employment as a minister of religion”, in both places.
- (4) In section 121 (interpretation of Parts 1 to 6), in subsection (1) –
- (a) omit the entry relating to “excluded employment”, and
- (b) at the appropriate place insert –
- ““lower-paid employment as a minister of religion” has the meaning given by section 290D of ITEPA 2003;”.
- 25 (1) Section 173 of FA 2004 (provision of benefits by registered pension scheme) is amended as follows.
- (2) In subsection (2), for “an excluded employment” substitute “lower-paid employment as a minister of religion”.
- (3) In subsection (3) –
- (a) in the opening words, for “an excluded employment” substitute “an employment which is lower-paid employment as a minister of religion”, and
- (b) in paragraph (a), for “an excluded employment” substitute “lower-paid employment as a minister of religion”.
- (4) In subsection (6), for “an excluded employment” substitute “lower-paid employment as a minister of religion”.
- (5) In subsection (7), for “an excluded employment” substitute “an employment which is lower-paid employment as a minister of religion”.
- (6) In subsection (10), for the definition of “excluded employment” substitute –
- ““lower-paid employment as a minister of religion” has the meaning given by section 290D of that Act;”.
- 26 In CTA 2010, in section 1065 (exception for benefits treated as employment income etc), in the first column of the table, for the words from “in section 216” to “lower-paid employment)” substitute “in section 290C of that Act (provisions of benefits code not applicable to lower-paid ministers of religion)”.

**EXPLANATORY NOTE**

**EXEMPTION FROM INCOME TAX FOR BOARD OR LODGING PROVIDED TO CARERS**

**SUMMARY**

1. Clause [X] provides a new exemption from income tax where an employed home care worker is provided with board and/or lodging in the home of the person that they are caring for.
2. This exemption is being introduced as a result of the abolition the £8,500 threshold for benefits in kind and expenses that is taking effect at the same time.

**DETAILS OF THE CLAUSE**

3. Subsection 1 amends Part 4 of ITEPA 2003 (employment income: exemptions).
4. Subsection 2 inserts new section 306A into Chapter 8 (exemptions: special kinds of employees).
5. New subsection 306A(1) defines a home care worker as an individual employed wholly or mainly to provide personal care to another individual at the recipient's home, where the recipient is unable to care for themselves because of old age, mental or physical disability, past or present dependence on alcohol or drugs, or past or present illness or mental disorder.
6. New subsection 306A(2) provides that no liability to income tax arises where board and/or lodging is provided at the home of the person being cared for, on a reasonable scale, to a home care worker by reason of their employment.
7. Subsection 3 adds new section 306A to the list of exemptions in section 228 ITEPA 2003 for which there is no liability to tax under any enactment.
8. Subsection 4 provides that the exemption will have effect for the 2016/17 tax year onwards.

**BACKGROUND NOTE**

9. At Budget 2014 the Chancellor announced a number of measures aimed at simplifying the administration of employee BiKs and expenses. This followed the Office of Tax Simplification's (OTS) review of employee BiKs and expenses.<sup>1</sup>

10. The package of four measures consisted of the following:

- Abolishing the threshold for the taxation of BiKs for employees who earn at a rate of less than £8,500 a year ('lower paid' employments), with action to mitigate the effects on vulnerable groups disadvantaged by the reforms;
- Introducing a statutory exemption for trivial BiKs;
- Introducing a system of collecting income tax in real time through 'payrolling' of BiKs; and
- Replacing the expenses dispensation regime with an exemption for paid and reimbursed expenses.

11. This new exemption is being introduced to mitigate for a particular group of people the effects of the abolition of the £8,500 threshold for BiKs and expenses that is being introduced at the same time.

12. This exemption applies to income tax for board and/or lodging provided on a reasonable scale to an employed carer in the home of the person that they are caring for.

13. The exemption will also apply to National Insurance contributions due on the value of the BiK of board and/or lodging, which the person providing the BiK of board and/or lodging (usually the person being cared for) would otherwise have to pay.

14. This is to ensure that those persons who are in need of care are not involved in additional employer related administration or costs that may arise from the abolition of the threshold.

15. These changes will be introduced for the 2016/17 and subsequent tax years.

16. If you have any questions about this change, or comments on the legislation, please contact Michael Adams on 03000 589313 (e-mail [employmentincome.policy@hmrc.gsi.gov.uk](mailto:employmentincome.policy@hmrc.gsi.gov.uk))

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<sup>1</sup> <https://www.gov.uk/government/publications/review-of-employee-benefits-and-expenses-final-report>