



Tax exemption for travel expenses of members of local authorities

Who is likely to be affected?

Councillors who are elected or appointed to serve as members of a local authority.

General description of the measure

The measure will introduce a new exemption from income tax for travel expenses paid to councillors by their local authority.

There will be a corresponding National Insurance contributions (NICs) disregard.

Policy objective

Councillors perform an important constitutional role in representing communities across the UK. They carry out their duties in their own time, often in addition to other professional and personal commitments, and many receive no payment other than allowances in recognition of the time and expenses they incur. This measure will help ensure that individuals are not discouraged from undertaking a role as a councillor by the tax treatment of travel expenses paid by their local authority.

Background to the measure

On 22 July 2014 the Government announced its intention to introduce a tax exemption and matching NICs disregard for councillors' travel expenses.

Following the announcement, informal discussions were held with representative bodies for councils and councillors.

Detailed proposal

Operative date

This measure will have effect on payments made on and after 6 April 2015.

Current law

Travel expenses paid to councillors are generally subject to the rules that govern the tax treatment of the travel expenses of all employees and office-holders.

Payments by employers of travel expenses for home to office travel are generally chargeable to income tax as a payment of earnings under section 62 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) and create a liability for Class 1 NICs as earnings from the employment as provided for in section 3 of the Social Security (Contributions) and Benefits Act 1992 (SSCBA).

Sections 229 to 236 ITEPA set out the current rules for Mileage Allowance Payments (MAPs), Approved Mileage Allowance Payments (AMAPs) and Mileage Allowance Relief (MAR) for employees who use their own vehicle for business travel.

Sections 337-338 ITEPA provide for deduction from earnings for costs necessarily incurred on business travel, specifically on travelling in the performance of the duties of the employment and travelling for the employee's necessary attendance at a temporary workplace.

Subsection 338(2) ITEPA specifically excludes the expenses of ordinary commuting, defined as travel between an employee's home and permanent workplace, from qualifying as business travel.

Sections 6–9 SSCBA impose a Class 1 NICs liability on employees and employers in respect of payments of earnings. Regulation 25 of, and Schedule 3 to, the Social Security (Contributions) Regulations 2001 (S.I. 2001/1004) (SSCR) provide for specified payments to be disregarded in the calculation of earnings for these purposes.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend Part 4 of ITEPA to exempt payment of councillors' travel expenses from a charge to income tax. This will include expenses paid for journeys between the councillor's home and most frequently used local authority office, except where the councillor's home is more than 20 miles from the boundary of the local authority area.

The current rules for MAPs, AMAPs and MAR will continue to apply to business travel undertaken by a councillor in their own vehicle. Journeys between a councillor's home and most frequently used local authority office, where their home is either in the local authority area or within 20 miles of the boundary of the area, will be treated as business travel when calculating MAPs and applying the AMAPs limits, but will not be treated as business travel for calculating MAR.

The exemption will only apply where payments are made by a local authority under certain provisions. Treasury Regulations will set out the definition of a local authority and the provisions that payments must be made under. Draft Regulations will be made available for consultation early in 2015.

Amendment will also be made to the SSCR to give effect to these provisions for Class 1 NICs purposes.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
This measure is expected to have a negligible impact on the Exchequer.						
Economic impact	This measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>This measure will only apply to elected or appointed councillors. It will affect those who currently receive taxable home to work travel expenses. The impact on affected individuals will be limited to the tax and National Insurance currently paid on such expenses.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	HM Revenue & Customs (HMRC) does not hold any data on the protected characteristics of councillors. However, this measure will apply equally to all councillors and will not impact other groups.					
Impact on business including civil society organisations	This measure is expected to have no impact on businesses or civil society organisations. There are likely to be implementation costs for local authorities due to the need to change some internal processes, but there will be ongoing administrative savings once implementation is complete.					

Operational impact (£m) (HMRC or other)	The additional costs for HMRC in implementing these changes are expected to be negligible.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be kept under review through communication with the affected group.

Further advice

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