



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

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>					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<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>					
Equalities impacts	This measure is not expected to have any disproportionate effect on people with protected characteristics.					
Impact on business including civil society organisations	<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)
Compliance Costs		
One-off Costs	N/A	N/A
Average Annual Costs	£1.8m	5
Total Costs (PV)	£8.4m	N/A
Compliance Benefits		
One-off Benefit	N/A	N/A
Average Annual Benefit	£4.5m	5
Total Benefit (PV)	£21.1m	N/A
Net Benefit (NPV)	£12.6m	N/A
Impact on Administrative Burden (included in Net Benefit)		
Increase	Decrease	Net Impact
£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>		
Operational impact (£m) (HMRC or other)	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.	
Other impacts	<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.