



# Income tax: simplifying the administration of employee expenses, including preventing salary sacrifice

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## Who is likely to be affected?

Employers who pay, reimburse, or provide benefits in kind (BiKs) in respect of expenses incurred by their employees.

Employees who receive payments or BiKs in respect of expenses they incur.

## General description of the measure

This measure will simplify the administration of tax relief for employee expenses where the employer pays or reimburses them, or provides BiKs in respect of them.

## Policy objective

This measure makes the administration of employee expenses simpler. It removes the reporting requirement and the requirement for employers to apply to HM Revenue & Customs (HMRC) for an agreement, known as a “dispensation,” in order to pay qualifying expenses and BiKs free of tax. It also more closely aligns the tax rules to the existing National Insurance contributions (NICs) treatment of expenses payments.

The measure also prevents expenses being paid free of tax and NICs as part of a ‘salary sacrifice’ arrangement. These arrangements require the employee to give up a right to a part of their salary in exchange for the payment of those expenses, in order to reduce the NICs liabilities of both the employer and employee.

## Background to the measure

The measure was announced by the Chancellor 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 ‘Employee benefits and expenses: exemption for paid or reimbursed expenses’ was published on 18 June 2014. The consultation ran until 9 September 2014. A summary of responses to the public consultation has also been published on the government website today.

## Detailed proposal

### Operative date

This measure will have effect for all expenses payments and BiKs provided on and after 6 April 2016.

## Current law

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

Part 5 of ITEPA 2003 provides for deductions from an employee’s earnings for certain expenses that they have to incur in order to perform the duties of their employment.

Section 65 of ITEPA 2003 allows employers to apply to HMRC for an agreement, known as a “dispensation”, to pay or reimburse expenses, or provide BiKs without taxing or reporting them. The legislation requires HMRC to grant a dispensation where it is satisfied that no additional tax is due.

The Social Security (Contributions) Regulations 2001, Schedule 3 provides for payments to be disregarded in the calculation of earnings for the purposes of earnings-related National Insurance contributions. Part VIII of that Schedule covers travelling, relocation and other expenses and allowances of the employment.

Section 10(7A) of the Social Security Contributions and Benefits Act 1992 provides that where a BiK qualifies for a matching deduction under certain provisions of Part 5 of ITEPA 2003 it is not taken into account for the purposes of Class 1A NICs.

## Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend ITEPA 2003 to exempt from income tax expenses payments and BiKs provided to employees where they would have been eligible for a deduction, had they incurred and paid the equivalent expense themselves.

The exemption will also allow employees to be paid a “scale rate” in respect of a qualifying expense, rather than being reimbursed the expense they have actually incurred. This can either be a rate set by HMRC in secondary legislation, or a rate that they have agreed with HMRC. Amendments to regulations will be made to mirror this change for NICs purposes.

Section 65 ITEPA 2003 (which allows dispensations to be granted in respect of expense payments and most non-cash BiKs) and section 96 ITEPA 2003 (the equivalent for non-cash vouchers and credit-tokens) will be withdrawn as part of this measure.

Unlike dispensations, the exemption will not be able to apply to expenses payments or BiKs that are provided as part of a salary sacrifice arrangement. This element of the measure will result in a yield to the exchequer from employers and employees who currently make use of such arrangements. Amendments to regulations will be made to mirror this change for NICs purposes.

## Summary of impacts

<b>Exchequer impact (£m)</b>	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-	+120	+90	+75	+75
	These figures are set out in Table 2.1 of Autumn Statement 2014 as <i>Income tax: Salary sacrifice and expenses including umbrella companies</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.					
<b>Economic impact</b>	The measure is not expected to have any significant economic impacts.					

<b>Impact on individuals, households and families</b>	<p>The change will make it easier for employees who receive expenses payments and whose employers do not currently have a dispensation to receive the tax relief they are entitled to.</p> <p>Employed individuals who are expected to be affected are those whose expenses payments are being made in conjunction with salary sacrifice.</p> <p>This measure is not expected to have an impact on family formation, stability or breakdown.</p>																																									
<b>Equalities impacts</b>	<p>HMRC does not hold data on the protected characteristics of those affected by this measure but this measure is not expected to have equality impacts on groups sharing protected characteristics.</p>																																									
<b>Impact on business including civil society organisations</b>	<p>This measure will reduce the administrative burden for businesses that pay qualifying expenses or provide qualifying benefits in kind to their employees. Businesses will no longer need to apply for a dispensation for qualifying expenses or report qualifying expenses on P11Ds. This is expected to affect 170,000 to 200,000 businesses. HMRC anticipates an admin burden reduction of £9.3 million per year. HMRC also anticipates a negligible one-off familiarisation cost.</p> <p>As a consequence of the change, it is expected that some employers whose employees use salary sacrifice on expenses will have a higher secondary Class 1 NICs liability.</p> <p>The costs and savings for businesses in complying with the tax system are summarised in the table below.</p> <table border="1" data-bbox="416 1111 1426 1872"> <thead> <tr> <th data-bbox="416 1111 751 1167"></th> <th data-bbox="751 1111 999 1167"><b>Cost</b></th> <th data-bbox="999 1111 1426 1167"><b>Time Period (yrs)</b></th> </tr> </thead> <tbody> <tr> <td colspan="3" data-bbox="416 1167 1426 1223"><b>Compliance Costs</b></td> </tr> <tr> <td data-bbox="416 1223 751 1272">One-off Costs</td> <td data-bbox="751 1223 999 1272">negligible</td> <td data-bbox="999 1223 1426 1272">N/A</td> </tr> <tr> <td data-bbox="416 1272 751 1328">Average Annual Costs</td> <td data-bbox="751 1272 999 1328">N/A</td> <td data-bbox="999 1272 1426 1328">N/A</td> </tr> <tr> <td data-bbox="416 1328 751 1384">Total Costs (PV)</td> <td data-bbox="751 1328 999 1384">negligible</td> <td data-bbox="999 1328 1426 1384">N/A</td> </tr> <tr> <td colspan="3" data-bbox="416 1384 1426 1440"><b>Compliance Benefits</b></td> </tr> <tr> <td data-bbox="416 1440 751 1489">One-off Benefit</td> <td data-bbox="751 1440 999 1489">N/A</td> <td data-bbox="999 1440 1426 1489">N/A</td> </tr> <tr> <td data-bbox="416 1489 751 1545">Average Annual Benefit</td> <td data-bbox="751 1489 999 1545">£9.3m</td> <td data-bbox="999 1489 1426 1545">5</td> </tr> <tr> <td data-bbox="416 1545 751 1601">Total Benefit (PV)</td> <td data-bbox="751 1545 999 1601">£43.6m</td> <td data-bbox="999 1545 1426 1601">N/A</td> </tr> <tr> <td data-bbox="416 1601 751 1760"><b>Net Benefit (NPV)</b></td> <td data-bbox="751 1601 999 1760">£42.5m</td> <td data-bbox="999 1601 1426 1760">N/A</td> </tr> <tr> <td colspan="3" data-bbox="416 1760 1426 1816"><b>Impact on Administrative Burden (included in Net Benefit)</b></td> </tr> <tr> <td data-bbox="416 1816 751 1872"><b>Increase</b></td> <td data-bbox="751 1816 999 1872"><b>Decrease</b></td> <td data-bbox="999 1816 1426 1872"><b>Net Impact</b></td> </tr> <tr> <td data-bbox="416 1872 751 2024">£0m</td> <td data-bbox="751 1872 999 2024">£9.3m</td> <td data-bbox="999 1872 1426 2024">-£9.3m</td> </tr> </tbody> </table>				<b>Cost</b>	<b>Time Period (yrs)</b>	<b>Compliance Costs</b>			One-off Costs	negligible	N/A	Average Annual Costs	N/A	N/A	Total Costs (PV)	negligible	N/A	<b>Compliance Benefits</b>			One-off Benefit	N/A	N/A	Average Annual Benefit	£9.3m	5	Total Benefit (PV)	£43.6m	N/A	<b>Net Benefit (NPV)</b>	£42.5m	N/A	<b>Impact on Administrative Burden (included in Net Benefit)</b>			<b>Increase</b>	<b>Decrease</b>	<b>Net Impact</b>	£0m	£9.3m	-£9.3m
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<b>Operational impact (£m) (HMRC or other)</b>	It is not anticipated that implementing this change will incur any additional significant costs nor reap any significant savings for HMRC.
<b>Other impacts</b>	<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. Other impacts have been considered and none have been identified.

### **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 at: [employmentincome.policy@hmrc.gsi.gov.uk](mailto:employmentincome.policy@hmrc.gsi.gov.uk)