

**Abolition of the £8,500 threshold
Consultation on draft clauses for Finance Bill 2015
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Executive Summary

- 1.1 We welcome the opportunity to comment on the draft legislation to extend the benefits code except in relation to certain ministers of religion and to introduce an exemption from income tax, plus corresponding disregards for National Insurance contributions (NIC) purposes, for board and lodging provided to carers. We have previously contributed to the Office of Tax Simplification (OTS) review of employee benefits and expenses and responded to the HM Revenue & Customs (HMRC) consultation document on the abolition of the £8,500 threshold for lower paid employment that closed on 9 September 2014.
- 1.2 We recognised the rationale of simplification behind the proposal to abolish the £8,500 threshold and also that a policy decision on going ahead with the abolition had been taken. With those points in mind, our consultation response aimed to draw attention to key groups that would be affected by the abolition, such as carers and certain ministers of religion.
- 1.3 We recommended exemptions for particular benefits in kind for particular groups, and we now welcome the fact that our suggestions have been taken on board. We especially welcome the decision to introduce a specific exemption for board and lodging provided to carers.
- 1.4 We welcome the fact that although the draft legislation is being published in the Finance Bill 2015, the changes will only be introduced for the 2016/17 and subsequent tax years. This delay in implementation will be essential to enable effective communications with affected employers and employees and development of clear guidance.

2 About Us

- 2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3 General comments

3.1 *Ministers of religion in lower paid employment*

- 3.1.1 We welcome the retention of exemptions from income tax and NIC in respect of certain benefits provided to ministers of religion in lower paid employment. This group was one that we identified in our response to the HMRC consultation that closed in September 2014.¹ We note that any non-exempt benefits provided to lower paid ministers will have to be reported on form P11D.

3.2 *Carers: board and lodging*

- 3.2.1 We welcome the recognition that there is a principled case in respect of carers and we welcome the introduction of a new exemption for carers in respect of board and lodging provided in the home of the person who they are caring for. We highlighted care and support workers in our response to the HMRC consultation that closed in September 2014.² We think this exemption is particularly important, for two key reasons. Firstly, the employers

¹ Para 4.3 – LITRG response, 8 September 2014

http://www.litrg.org.uk/Resources/LITRG/Documents/2014/09/080914_LITRG%20response_abolition%20of%208500%20threshold_FINAL.pdf

² Para 4.1 – LITRG response, 8 September 2014

http://www.litrg.org.uk/Resources/LITRG/Documents/2014/09/080914_LITRG%20response_abolition%20of%208500%20threshold_FINAL.pdf

(who require care) are essentially ‘accidental’ employers – we do not think they should face a burden of paying Class 1A NIC or reporting a benefit of board and lodging. Secondly, the employees often receive board and lodging because this will assist them in providing care to the employer – it is arguable that the board and lodging is not a benefit.

3.3 ***Implementation***

3.3.1 We welcome the fact that the changes will take effect for both income tax and NIC purposes. We also agree with the proposal to delay implementation until 6 April 2016, to give time to employees, employers and HMRC to take steps to prepare for the changes.

3.3.2 It is important that HMRC use this time to develop clear, easy to understand guidance for care and support employers in respect of the exemption for board and lodging, and for those employers who will have to complete forms P11D for the first time. We also recommend that HMRC also develop clear guidance in respect of volunteers, as often organisations that gain from the work of volunteers believe that they are caught by the benefits legislation.

4 **Comments on draft legislation**

4.1 ***Extension of the benefits code except in relation to certain ministers of religion***

4.1.1 No comment.

4.2 ***Exemption from income tax for board or lodging provided to carers***

4.2.1 We understand that in addition to the exemption from income tax there will be no liability to Class 1 or Class 1A NIC in respect of board and lodging provided to a carer, due to the provisions contained at s.10 of the Social Security Contributions and Benefits Act 1992 (SSCBA 1992) and the proposed amendments to the Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003).³ It would however be helpful to have explicit confirmation from HMRC that this is indeed how they intend the exemption from Class 1A NIC to have effect.

4.2.2 We welcome the decision to define a care and support employee based on their role and duties, rather than on their title, at draft s. 306A of ITEPA 2003.

LITRG
2 February 2015

³ This is suggested by HMRC’s National Insurance Manual: NIM13070, which indicates that in order for a liability to Class 1A NIC to arise the employee must be chargeable to income tax under ITEPA 2003.