

**Exemption for paid or reimbursed expenses
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 abolish the dispensation regime and introduce an exemption from income tax for amounts which would otherwise be deductible. 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 an exemption for paid or reimbursed expenses that closed on 9 September 2014.
- 1.2 We recognised the rationale of simplification behind the proposal to introduce an exemption from income tax for paid or reimbursed expenses. We stressed, however, that this proposal does not assist those employees to whom employers do not reimburse expenses, but who nevertheless incur qualifying costs. In addition, these employees can be further subdivided into those who pay tax, and can therefore claim tax relief on their qualifying expenses and those who do not pay tax, and who are unable to claim any tax relief.
- 1.3 We emphasised the need for clear guidance, both for employers and for employees. It is also essential that the process for employees to claim tax relief on qualifying expenses is made easier and is publicised properly.
- 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, as this should allow time for employers and employees to inform themselves about the changes.

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 As we noted in our response to the consultation that closed in September 2014, we think it would be helpful for employers if HMRC provide “models” of acceptable record-keeping and checking processes.¹ This is particularly the case for smaller employers, who are unlikely to have the same resources as larger employers. We trust that these will be included in guidance in due course, and would welcome the opportunity to comment on the draft guidance.
- 3.2 We welcome that HMRC are considering ways to improve the process for claiming tax relief on qualifying expenses that employees have to pay themselves.² We would welcome the opportunity to be involved in the development of an improved process.
- 3.3 We note that HMRC are also reviewing their guidance for employers (Booklet 490). We recommend that HMRC ensure their employer guidance is clear. We think it will also be essential to review and improve guidance for employees, both those whose expenses are reimbursed and those who do not receive reimbursement – the guidance must be clear and

¹ Para. 4.1 ff. – LITRG response, 8 September 2014

http://www.litrg.org.uk/Resources/LITRG/Documents/2014/09/080914_LITRG%20response_expenses%20exemption_FINAL.pdf

² Currently employees must use form P87 – tax relief for expenses of employment to claim income tax relief.

easy to understand. In addition, we suggest that HMRC make employers aware of employee guidance and its location, in order that they are able to direct employees' queries appropriately.

- 3.4 The draft legislation and Tax Impact and Information Note do not refer to tax credits, Universal Credit and means-tested benefits. We think consideration should be given to the position for employees in receipt of benefits or credits. It is important that guidance is clear on whether or not they should deduct qualifying expenses when providing details of their income, and whether reimbursement or payment of such qualifying expenses by the employer affects the position for benefits and credits.
- 3.5 While we agree with and understand the Government's decision with regard to salary sacrifice arrangements and this exemption, we note that often employees are forced to sacrifice salary in order to receive reimbursement of qualifying expenses. It is important that Government and HMRC work together to prevent the exploitation of low-income workers, who will probably end up with unreimbursed expenses, but whose salary will not increase sufficiently to compensate them for this.
- 3.6 We welcome the fact that the legislation will only take effect from 6 April 2016; since the legislation will be introduced in 2015 this will allow time for HMRC to publicise the new regime properly, to assist employers and employees to prepare.

4 Comments on draft legislation

4.1 *Abolition of dispensation regime*

- 4.1.1 We have no comments on the draft amendments to the legislation.

4.2 *Exemption from income tax for amounts which would otherwise be deductible*

- 4.2.1 We have no comments on the draft legislation.

LITRG
2 February 2015