

**Real-time collection of tax on benefits in kind and expenses through voluntary payrolling  
Consultation on draft clauses for Finance Bill 2015  
Response from the Low Incomes Tax Reform Group (LITRG)**

**1 Introduction**

- 1.1 We welcome the opportunity to comment on the draft legislation to introduce powers for HM Revenue & Customs (HMRC) to make regulations to authorise employers to deduct income tax through PAYE on benefits. We have previously contributed to the Office of Tax Simplification (OTS) review of employee benefits and expenses and responded to the HMRC consultation document on real-time collection of tax on benefits in kind and expenses through voluntary payrolling that closed on 9 September 2014.
- 1.2 We welcomed the decision to explore voluntary, as opposed to mandatory, payrolling and recognised that it offers an opportunity to employers and HMRC for simplification.
- 1.3 We noted, however, that it might be less beneficial for employees as it could create confusion. We emphasised the need for clear guidance for employers and employees.
- 1.4 We highlighted the need to undertake work to explore the impact of payrolling on claimants of tax credits, Universal Credit and means-tested welfare benefits, and suggested that a working group be established. In particular, the question of what information in respect of payrolled benefits is passed to the Department for Work and Pensions (DWP) via the PAYE RTI feed is of concern, for example for tax credits. We reiterate the need to undertake this work. It will also be essential to create and provide guidance for claimants of tax credits, Universal Credit and welfare benefits.

- 1.5 We welcome the decision to include in Finance Bill 2015 only the primary legislation to provide HMRC with the powers to develop and introduce the necessary regulations to provide a framework for voluntary payrolling. This decision recognises the need to ensure that the framework is designed well, to serve employers, employees and HMRC. We would like the opportunity to participate in the discussion, with the aim of ensuring that the scheme works well for employees.
- 1.6 We are pleased to note that one of the detailed questions that HMRC intend to discuss further with stakeholders is how to avoid confusion for employees.<sup>1</sup> This will be of particular concern for employees in receipt of more than one benefit, one of which is payrolled and one of which is not. We also have concerns for those with more than one employment, who may find themselves subject to different treatment of similar benefits, and for employees changing jobs, who may experience different treatment of similar benefits by those employers.
- 1.7 We welcome the fact that although the draft primary legislation is being published in the Finance Bill 2015, the changes will only be introduced for the 2016/17 and subsequent tax years.

## **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.

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<sup>1</sup> Para. 2.37, Employee Benefits and Expenses – Real-time collection of tax on benefits in kind and expenses through voluntary payrolling: Summary of Consultation Responses – HM Revenue & Customs, December 2014.

### **3 General comments**

- 3.1 While we recognise the advantages for employers and HMRC of a well-designed voluntary payrolling regime, and that the payrolling of benefits may be easier for many employees to understand than the current system, the advantages for employees will only arise if there is good communication and guidance, both for those within voluntary payrolling and those outside it.
- 3.2 We recommend that HMRC ensure their guidance for employers is clear, and that there is also clear and easy to understand guidance for employees. In addition, we suggest that HMRC make employers aware of employee guidance and its location, in order that they are able to direct their employees appropriately. This will be particularly important if HMRC wish to encourage smaller employers with fewer resources to adopt voluntary payrolling. The employee guidance will need to be 'joined-up', covering the effects in respect of income tax, National Insurance contributions, tax credits, Universal Credit and welfare benefits, as many employees also claim some sort of tax credits or welfare benefits.
- 3.3 In addition, we think it is important that there is consistency of treatment. Thus, if any employer adopts voluntary payrolling for a particular benefit, they should use payrolling for all employees in receipt of that benefit. There may be a need to exclude certain employees from this, but this should only be on a principled basis. The other aspect of consistency is that we would expect there to be a list of (types of) benefits that can be payrolled, from which employers may select whether or not to payroll. We welcome the decision to have an initial list consisting of car, car fuel, medical insurance and subscriptions.

### **4 Comments on draft legislation**

#### **4.1 *PAYE: benefits in kind***

- 4.1.1 We have no comments on the draft legislation.

LITRG  
2 February 2015