CHAPTER 19

MISCELLANEOUS BENEFITS

19.1 Company vans

Where an employer allows an employee exclusive use of a company owned van, there will be a taxable benefit. A "van" in this context is a mechanically propelled road vehicle which is a goods vehicle weighing less than 3.5 tonnes. ITEPA 2003, s.115(1)

As a van is not a car, we do not use the company car rules to calculate the benefit.

If the van is provided to a lower paid employee who is not a director the benefit is tax free.

In addition, as we saw in relation to car benefits, if the van cannot emit CO_2, there is no benefit for the tax years 2010/11 to 2014/15 ITEPA 2003, s.115(2)

A van with unrestricted private use has a **flat rate benefit of £3,000.** ITEPA 2003, s.155(3)

This charge is **apportioned** if the van is not available for the whole of the year.

Where the van is "shared" - i.e. concurrently available to more than one employee – **the cash equivalent is split between the employees** based on the days it was available.

As well as the benefit for the company van, there will be an annual **charge of £550** where **free or subsidised fuel** is provided by the employer for **private use** by the employee. ITEPA 2003, s.161

There is no reduction in the benefit where an employee makes a contribution towards private fuel for the van.

19.2 Mobile phones

ITEPA 2003, s.319

If an employer provides an employee with a **mobile phone,** this is a **tax exempt** benefit even if the employer is paying for the employee's personal telephone calls. It is common in practice for employees, particularly those who are not office based, to be provided with a company mobile phone. HMRC recognises that there will inevitably be some personal calls made by the employee but they have chosen not to treat this as a taxable benefit.

The exemption only covers the "**provision for an employee**.....of a mobile phone". Therefore if an employee has his own mobile phone and the employer reimburses any private calls or standing charges there will be a taxable benefit equal to the cost to the employer of reimbursing such expenses.

The number of mobile phones that can be loaned without giving rise to a benefit is restricted to **one per employee**.

There is no exemption for phones made available to members of the employee's family or household.

19.3 Vouchers

If an employer provides vouchers to an employee – for example a high street store voucher – there will be a taxable benefit. The cash equivalent will be the **cost to the employer of providing the voucher** to the employee. This is common at Christmas where employers often give bonuses to employees in this form. ITEPA 2003, s.87

This applies to all employees, both higher and lower paid.

Where an employer provides **meal vouchers** to an employee, this is also a **taxable benefit** except that the **first 15 pence per day of vouchers** provided is **exempt** from tax. So, if the employer gives a one pound meal voucher to an employee, only 85 pence of this is taxable. ITEPA 2003, s.89

Similarly if an employee is provided with some form of "credit token" – for example, a credit card, debit card or other token or document giving the employee the right to obtain goods or services – the cost of providing such a token will be a taxable benefit for the employee. ITEPA 2003, s.90

19.4 Mileage allowances

ITEPA 2003, s.229

Mileage allowances will be paid when an **employee (whether higher or lower paid) uses his own car for work** purposes. When an employer pays a mileage allowance to the employee, he is reimbursing that employee at a fixed amount per mile for using his own car. The mileage allowances rules do not therefore apply to company vehicles. ITEPA 2003, s.229(4)

HMRC wants to make sure that the employee is not making a profit from the mileage allowance paid to him. If there is a **profit** – i.e. the cost to the employee of using his car is less than the allowance paid – HMRC will **tax that profit** as employment income.

To work out the profit, HMRC has **tax-exempt limits** which we need to apply. If allowances are paid above these limits the employee will be making a profit – if allowances are paid below these limits, the employee will be making a loss.

The tax-exempt limits **depend on the employee's business mileage** in the year. Business mileage does **not include travelling from home to work**. If an employer reimburses an employee's travel costs from home to work, this will be a fully taxable benefit.

The limits are given in the Tax Tables provided with your course and are also reproduced below.

Vehicles	*First 10,000 Business miles*	*Additional Business miles*
Cars	40p	25p
Motorcycles	24p	24p
Bicycles	20p	20p

Note from the table that the tax-exempt limits change once the business mileage threshold of 10,000 miles has been exceeded.

The point of this scheme is to determine whether the employee is making a profit or loss from using his own car for work. To determine the profit, we simply take the allowance reimbursed and deduct the tax-exempt limit. **Profits are taxable** whilst **losses are deductible**.

Illustration 1

An employee uses his own car for occasional business journeys. In the tax year the employee did 15,000 business miles. His employer reimburses him at a fixed rate of 60 pence for every business mile travelled. The calculation is as follows:

	£
Reimbursed	
15,000 x 60p	9,000
Less: tax exempt limits	
10,000 x 40p	(4,000)
5,000 x 25p	(1,250)
Taxable profit	**£3,750**

Illustration 2

If the employee in the illustration above was reimbursed at a lower rate of 20 pence per mile, the calculation is as follows:

	£
Reimbursed	
15,000 x 20p	3,000
Less: tax exempt limits	
10,000 x 40p	(4,000)
5,000 x 25p	(1,250)
Loss (deductible from earnings)	**£(2,250)**

The taxpayer is allowed to deduct this loss from his other taxable earnings for the year. ITEPA 2003, s.231

In practice, many employers make sure that they reimburse their employees at a rate **exactly equal to the tax exempt limits**, so year on year employees using their own cars for business purposes will neither have a profit nor a loss.

19.5 Passenger payments

ITEPA 2003, s.233

In an attempt to encourage drivers to share business journeys wherever possible, **payments can be made free of tax** and NIC to **an employee carrying one or more passengers**.

"Passenger payments" can be made tax exempt to an employee if:

- the driver and passenger(s) are **fellow employees** making the same business journey; and
- the "passenger payments" do not exceed the "approved amount" of **5p per business mile**; and ITEPA 2003, s.234
- the employee **physically receives the passenger payment** from the employer (i.e. an employee who is not paid extra for carrying passengers cannot claim an additional 5p per mile allowance).

Only payments in respect of **business mileage** are tax-free – the passenger payment scheme does not extend to private mileage such as home to office travel.

The "passenger allowance" applies per passenger (eg 10p per business mile for 2 passengers etc) and applies to both company vehicles and for employees using their own cars for business purposes.

19.6 Tax exempt benefits

There is a long list of benefits which are completely exempt from tax. Here we will pick up a dozen or so of the more familiar **tax exempt benefits.**

One of the most valuable benefits that employees receive from their employers, is an **employer's contribution to the employee's pension** scheme. This is exempt from tax as long as the pension scheme has HMRC approval. ITEPA 2003, s.307

Therefore if an employer pays into either the employee's occupational pension scheme or into the employee's personal pension scheme, no taxable benefit will arise. The level of employer's contributions is irrelevant.

The provision of a **mobile phone** and **associated calls** is a tax-exempt benefit. ITEPA 2003, s.319

The **reimbursement of removal expenses is exempt, up to** a maximum amount of **£8,000**. For example, if an employee is transferred to another office and the employer pays the relocation expenses, no taxable benefit will arise as long as the cost of the move is not more than £8,000. A 2003, s.287

The exemption applies to "removal benefits" and to the "payment or reimbursement of removal expenses". Such expenses will qualify if they are "reasonably provided in connection with a change in the employee's residence" – i.e. in respect of a change in the duties and/or location of the employment or on the employees becoming employed. ITEPA 2003, s.271 ITEPA 2003, s.273

Qualifying removal expenses will include: ITEPA 2003, s.277 -283

- legal fees in connection with the acquisition of a new residence (including stamp duty land tax);
- any such abortive acquisition costs;
- legal fees in connection with the disposal of a former residence;
- costs of transporting belongings (including temporary storage costs);
- travel and subsistence for the employee (and family) to visit the new area.

A detailed breakdown of allowable costs is given at s.277 – s.283 ITEPA 2003.

Qualifying removal expenses will also include the additional interest paid on a bridging loan taken out between buying a new property and disposing of an old one. ITEPA 2003, s.284

The provision by the employer of a **crèche or nursery** for employee's children is a tax-exempt benefit. The facilities must usually be exclusively for the employer. ITEPA 2003, s.318

There is a partial exemption of up to **£55 a week** for childcare vouchers. This also applies to other childcare where the employer contracts directly with the childcare provider such as a commercial nursery. ITEPA 2003, s. 318A

The provision of "**workplace parking**" is a tax-exempt benefit. This covers not just a space in the employer's car park but would also extend to the costs of a season ticket at a public car park close to work. Similarly the provision of **motorcycle or bicycle spaces** at or near work is a tax-exempt benefit. ITEPA 2003, s.237

Subsidised staff canteens are tax-exempt benefits as long as the canteen facilities are available to all employees. Therefore if a company has a canteen or restaurant that is reserved for use by senior executives only, those executives will have a taxable benefit on the costs of the free or subsidised meals provided. From 2011/12, this exemption will not be available if the provision is part of a salary sacrifice or other flexible benefit arrangement. ITEPA 2003, s.317

Incidental expenses paid by an employer to employees working away from home are tax exempt up to a daily limit. These limits are £5 per night while working in the UK and **£10 per night** whilst **working abroad**. ITEPA 2003, s.240 & s.241

Costs incurred by the employer in providing **full time, day release or block release training** are tax-exempt benefits. SP4/86

The provision by the employer of a **Christmas party** or other similar function for the employees, will not give rise to a taxable benefit for the employees as long as the costs of the party did not exceed **£150 per head**. This will mean that for most office parties, there will be no corresponding tax charge on the employees. However, if the employer throws a particularly lavish party which costs, say, £200 per head, the taxable benefit for each employee will be the full £200 and not just the excess over £150. It is an all or nothing benefit. ITEPA 2003, s.264

Awards by an employer to an employee from a **staff suggestion scheme** are generally tax exempt provided that the award does **not exceed £5,000**. ITEPA 2003, s.321 & s.322

Long service awards of up to **£50 per year of service**, as long as the **employee** had **at least 20 years service** with the same employer are also exempt. This exempts **gifts** such as gold watches etc to a **long serving employee on retirement.** ITEPA 2003, s.323

Employers can make tax-exempt payments to an employee in respect of **reasonable additional costs incurred for working at home. This must be** under a **homeworking arrangement** where the employee regularly works at home. ITEPA 2003, s.316A

There is no limit to such payments stated in statute. However, HMRC has stated that **no records need to be kept by employers for payments up to £3 per week or £156 per year**. If payments exceed these limits, the employer should keep records to provide evidence that the higher payments were wholly in respect of additional household expenses incurred by the employee in working from home.

This covers the most common tax exempt benefits but it is by no means a definitive list.

Other benefits which are tax exempt include:

- workplace sports or recreational facilities for use by staff generally ITEPA 2003, s.261
- "third party benefits" – ie benefits from someone other than one's employer – not exceeding £250 per year. ITEPA 2003, s.324
- late night taxis etc when the employee is occasionally required to work late (ie after 9 pm) ITEPA 2003,. s.248
- hospitality or entertaining if provided by someone other than the employer ITEPA 2003, s.265
- eye tests or corrective glasses where an employee is required to use a visual display unit (VDU) in the employment ITEPA 2003, s.320A

Example 1

Which of the following benefits are tax exempt in 2010/11?

a) Use of company van (emits CO_2) with unrestricted private use.
b) £500 loan to buy annual travelcard
c) £40 per week childcare vouchers
d) Car park voucher near work
e) Employer payment to work pension scheme
f) Loan of computer costing £1,000 in May 2010

Example 2

Rodney uses his own car for work. He travels 25,000 miles per year, half of which were for business purposes. His employer reimbursed Rodney at 40p for each business mile.

Calculate Rodney's taxable benefit.

Answer 1

		Tax exempt	Taxable
a)	Use of company van		✓
b)	£500 travelcard loan	✓	
c)	£40 per week childcare vouchers	✓	
d)	Car park voucher	✓	
e)	Payment to pension scheme	✓	
f)	Loan of computer		✓

Answer 2

	£	£
Mileage reimbursed		
12,500 @ 40p		5,000
Less: tax exempt limits:		
10,000 @ 40p	4,000	
2,500 @ 25p	625	
		(4,625)
Taxable profit		**£375**