

# Expenses Exemption to replace Dispensations: Are your systems robust?

From 6 April 2016 HMRC will replace dispensations by introducing an exemption from paying tax and National Insurance Contributions (NIC) on qualifying expenses or benefits that are paid, reimbursed or provided to employees. The new legislation will also introduce a statutory requirement for employers to operate a system for checking employee expense claims.

*Are you ready for these changes and the impact they may have on your record keeping requirements?*

## New Checking System requirements

One of the major changes with the introduction of this new legislation is that it will now be a statutory requirement for employers to operate a system for checking employees' expenses claims. The system has to check:

- that the employees are actually incurring expenses; and
- that a deduction would be allowable for those expenses.

The extent and regularity of the checking process will depend on the size of the employers' workforce, the complexity and nature of the expenses being incurred and reimbursed. As well as reviewing claim forms and receipts, items such as diaries, attendance records and work schedules will now have to be incorporated within these checks, and documented. It is therefore very important that systems in place demonstrate these statutory requirements are met; failure to do so will enable HMRC to challenge the validity of expenses and the tax relief claimed, leading to income tax and NIC liabilities being assessed, as well as penalties and interest.

## Changes in Reporting Requirements

Up until April 2016 employers who pay, provide or reimburse allowable expenses and benefits have two options. These being to report those expenses and benefits on form P11D and the employee then having to claim their tax relief

from HMRC, or the employer holds a dispensation agreed with HMRC. From 6 April 2016 those expenses and benefits that might previously have been covered by a dispensation will now be within the exemption. For those employers who did not have a dispensation the same principle still applies; if the employee would have been entitled to tax relief in full regarding the expenses or benefits paid there will be no need to report this to HMRC or account for any tax and NIC. If expense payments are not wholly tax deductible in the hands of the employee, ie home telephone costs paid for by the employer, the cost of the business telephone calls are exempt and do not have to be disclosed on a form P11D, but the remaining costs reimbursed are not tax deductible and do have to be reported.

The existing rules for the reporting of benefits have not changed.

## Scale Rate Payments – Subsistence allowances

For the payment of un-receipted expenses, Benchmark scale rate payments will be replaced by specific rates as set out in the new regulations. These subsistence rates are the maximum amounts that can be paid by employers that will be free from tax and NIC considerations and are as follows:

Min journey time	Max amount of meal allowance
5 hours	£5
10 hours	£10
15 hours	£25

Where a meal allowance of £5 or £10 is paid and the qualifying journey in respect of which it is paid lasts beyond 8pm a supplementary rate of £10 can be paid.

Employers wishing to pay or reimburse un-receipted expenses at a rate other than those set by the new regulations can apply to HMRC for approval of a bespoke rate. To do this employers will need to supply evidence, by way of a sampling exercise that the proposed rate is a reasonable estimate of the expenses incurred. Employers can continue to pay or reimburse receipted expenses in full without reference to the Scale Rate limits.

## Salary Sacrifice Arrangements

The exemption for paid or reimbursed expenses does not apply where the expenses are paid or reimbursed under the terms of a relevant salary sacrifice arrangement. This also applies to existing schemes for the payment or reimbursement of expenses under a salary sacrifice arrangement.

From April 2016 any such expenses payments made to employees using these arrangements will need to be paid after deducting tax and NIC.

## We are Here to Help

HMRC will now more than ever expect employers to have the appropriate systems in place regarding the payment of expenses and benefits. You can be assured that HMRC will continue to be committed to ensuring that employers are complying with their duties and responsibilities and paying the correct levels of PAYE/NIC.

Why not speak to our PAYE compliance expert Julia Clutterbuck.

Julia until recently had been employed by HMRC where for the past 27 years she worked exclusively in dealing with employer enquiries, looking at the operation of PAYE/NIC across payroll, expenses and benefits. She therefore has a very strong understanding and insight of the present approach to employer compliance by HMRC.

Julia can provide clients with health checks on employer compliance matters, reviewing their systems and record keeping processes, ensuring that those systems are robust enough to meet the expectations of HMRC.

If you feel this is something that you may benefit from please call Julia on 01803 320100.



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