

Subsistence allowances

(Lecture P1112 – 16.58 minutes)

Employees are often required to travel on business and in doing so will incur a range of expenses. Where the employer receives a receipt for work related expenses they can be reimbursed without any tax implications.

In an attempt to simplify business travel expenses, employees can be reimbursed using HMRC statutory rates – commonly known as statutory tax exempt payments. By paying these rates, the employer has no reporting or payroll implications. Do remember that where an employer pays a rate above the HMRC's statutory exempt amount, the whole amount is normally subject to both income tax and NIC through payroll.

Incidental overnight expenses

When travelling on business, the employee is likely to incur certain incidental personal expenses when staying away from home. These might include laundry costs, morning newspaper or drink from the hotel room mini-bar.

HMRC rates allow tax-free payments of £5 per night when staying away in the UK, increased to £10 per night when staying abroad. Should his employer pay at a higher rate, then 100% of the amount paid is taxable through payroll.

Benchmark scale rates for meals

Where an employee provides receipts for subsistence, provided that the employer is confident that it is a business expense incurred wholly, exclusively and necessarily in the performance of their duties, then the costs can be reimbursed tax free.

Employers can choose to pay or reimburse expenses using HMRC's benchmark rates without seeking HMRC approval. Expenses claimed in this way are both tax and NIC free. These rates are particularly useful where an employee fails to provide receipts.

If an employer:

- wants to pay rates that are higher than the standard HMRC rates, they will need to seek HMRC approval, providing sampling to prove to HMRC that the higher rate is appropriate;
- pays a higher rate but without HMRC approval, then the excess over HMRC's published rate is liable to tax and NIC.

The HMRC rates payable provided that the employee is on a qualifying journey are:

- Minimum of 5 hours away from workplace - £5 (+ £10 if working after 8pm)
- Minimum of 10 hours away from workplace - £10 (+ £10 if working after 8pm)
- Minimum of 15 hours and still away at 8pm - £25

The rates cover food and drink but do not include just a drink in a pub or a snack bar.

Qualifying journey

To qualify for the benchmark rates, the travel must be carried out in the performance of his or her duties or when travelling to a temporary workplace on a journey that is not substantially ordinary commuting.

As already said the employee must be absent from their ordinary place of work for a continuous period of at least 5 or 10 hours and incurred a cost on a meal of food and drink after starting their journey.

Advisory fuel rates from 1 December 2018

These rates are used for company cars only, where employers reimburse employees for business travel based on miles that are recorded in their mileage log.

These rates are reviewed quarterly and the previous rates can be used for up to one month from the date the new rates apply.

<i>Engine size</i>	<i>Petrol - per mile</i>	<i>LPG - per mile</i>
1400cc or less	12 pence	8 pence
1401cc to 2000cc	15 pence	10 pence
Over 2000cc	22 pence	15 pence

<i>Engine size</i>	<i>Diesel – per mile</i>
1600cc or less	10 pence
1601cc to 2000cc	12 pence
Over 2000cc	14 pence

Hybrid cars are treated as either petrol or diesel cars for this purpose.

The Advisory Electricity Rate for fully electric cars is 4 pence per mile.

Approved mileage allowance payments

By contrast, where an employee uses their own vehicle on business journeys the following amounts can be claimed:

- Cars – the first 10,000 business miles per tax year are reimbursed at 45p per mile and 25p thereafter; there is a passenger rate payable to the driver of 5p per mile;
- Motorbikes – business mileage is reimbursed at a rate of 24p per mile;
- Bicycles - business mileage is reimbursed at a rate of 20p per mile.

Working from home allowance

Where an employer works from home, the employer may pay the employee a tax free amount of £4 per week or £18 per month without the need for supporting evidence. This is intended to cover light, heat and water. Where evidence can be provided to support a higher rate, this higher amount can be paid tax free provided that the evidence is retained. Without this evidence, the excess payment will be taxable through payroll.

To qualify, HMRC require that either the employee is working at home because:

- the equipment that they need is not available at the workplace; or
- they live too far from the workplace to travel their each day.

Where the employee chooses to work from home, the tax free allowance is not available.

Created from seminar by Alexandra Durrant