

Employment related expenses

(Lecture B1103 – 15.35 minutes)

Normally, payments for expenses, including sums put at the employee's disposal and paid away by them, are assessable to income tax as taxable benefits. However, provided the expense is a qualifying expense, a deduction can be claimed and no tax paid. To qualify, the expenses must satisfy s336 ITEPA2003 whereby the employee must incur or pay the expense due to employment, and the expense must be incurred "wholly, exclusively and necessarily in the performance of the duties of employment".

Qualifying business expenses

Historically, an employer could apply for a dispensation for certain expenses to be paid tax free and not reported. Today, no such dispensation applies but instead, provided that the expenses satisfy s336 ITEPA 2003, they are 'qualifying expenses' and are neither taxed nor reported.

The employer must not assume that all expenses incurred by an employee are qualifying expenses; they must always check that s336 applies by carefully reviewing any claims and payments. They must consider all expenses, principally travel, subsistence and entertainment but there may be other expenses that are incurred such as payment for use of home phone or broadband

Travel expenses

Travel costs are probably the most widely claimed expenses. 100% tax relief is given for allowable travel expenses that include travelling in the performance of duties, or to or from a temporary place of work.

For travel to qualify as business travel in performance of their duties, the travel must be required as part of the job. This could be to visit a customer or supplier, to attend a training session or work related exhibition. Remember that HMRC would not expect normal home to work travel to be deducted from these travel expenses, but they would expect the employer to check that the employee is taking a direct route for the business travel and is not going via friends and family or visiting the gym.

Permanent place of work

The contract of employment will normally state the permanent place of work that will be where the employee regularly works to carry out duties, whether from an office, depot, site or for a salesperson that could be a defined geographical area. Journeys within a geographical area would be qualifying business travel.

An employee could have a temporary workplace, in which case travel to and from home to this temporary workplace would qualify as business travel and not be taxable. A temporary workplace can last as long as 24 months or up until the point that the employer knows that the workplace becomes permanent. So an 18-month placement to Leeds would be a temporary workplace with business travel being paid tax-free. If after 12 months it is agreed that the employee will continue to work in Leeds for the foreseeable future, Leeds becomes the employee's permanent workplace and travel costs become taxable from that date.

Dual purposes expenses

Where an expense is wholly business related, no reporting is required. However, where an expense is partly business and partly private, the non-business element should be reported through PAYE.

If an expense is reported through payroll, the employee can still make a s336 claim for any business element.

Business trip example

Joe is based in London and he travels to Manchester for a 3-day training course. He stops on route with friends and takes them out for a meal to thank them for putting him up. He claims mileage for driving from home to Manchester and back. He buys sandwiches for lunch each day. His hotel bill includes his room, breakfast and evening meal, mini bar and drinks at the bar and a morning newspaper. On the last day he plays a round of golf. How are these expenses treated?

- Meal to say thank you is a taxable benefit as it is not wholly, exclusively and necessarily incurred in the performance of his duties;
- The mileage is a business expense and can be claimed tax free at 45p per mile (25p if business miles have exceeded 10,000 for the tax year);
- Sandwiches are paid tax free subsistence as the amount spent is a modest amount;
- The cost his hotel room, breakfast and evening meal would all be tax free business expenses; the drinks from the mini bar and bar would be taxable as they are not qualifying business expenses;
- The newspaper is a personal expense and taxable; The employee can claim incidental expenses tax free of up to £5 per night when staying away from home in the UK or £10 if abroad. This allowance would cover the newspaper cost and could be used to cover the cost of his bar drinks. We will cover this allowance in more detail in a future session.
- The round of golf would be taxable unless it was entertaining a client, in which case it would be claimable as a business expense.

Where the employee reimburses the cost of taxable items, they are no longer taxable. Failing to reimburse, means that the employer must report these expenses and collect tax and NIC through PAYE.