

# ***IFS residential conference***

## **The OTS project on Employee Benefits & Expenses**

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[www.gov.uk/government/organisations/office-of-tax-simplification](http://www.gov.uk/government/organisations/office-of-tax-simplification)

# OTS Employee Benefits & Expenses (EBE) project

Office of  
Tax Simplification

## Why this area

- 3m+ get a taxable benefit
- 4.4m P11Ds...500,000 benefits under £100, 1.1m £100-£500
- Total value £5bn+
- 80%+ on private healthcare, cars & car fuel

## Aims

- Simplification! (vs policy)
- Technical & administrative
- Have regard to revenue implications/impact
- Impact of working patterns, remuneration practices

### **What we did**

- Project team: Deloitte & KPMG secondees; two direct hires (all part-time)
- Evidence gathering: 100+ meetings, submissions, workshops...
- ...employers, agents, rep bodies, academics, HMRC staff
- Research, including international comparisons
- Three reports

### **Overriding impressions**

- Classic British system!?
- System hasn't kept pace with wider developments
- Scope for technical & administrative simplifications
- Digitisation potential

# EBE: January report main recommendations

### Benefits

- Introduce voluntary Payrolling (voluntary for employers & benefits)
- PAYE Settlement Agreements: widen substantially
- Dispensations: exemption for reimbursed 'qualifying business expenses'
- £8,500 limit: abolish & mitigate
- Trivial benefits: need a standard amount
- Flat rate expenses: review, update, payroll

### Travel & Subsistence

- Possible radical reform: reimbursed travel allowable...*in the meantime*
- ....Improve existing system: 24m rule, multiple workplaces etc

# EBE...longer term issues

## NICs reform

- align underlying definitions
- resolve time period differences
- combine Class 1/1A...Class 1 on all benefits?
- what of Class 1B?

## Mechanics and related matters

- what is a benefit...
- look at the benefit...not at payment route
- no benefit = no tax?

*HMT call for evidence on remuneration policies and patterns*

- **Termination payments**
  - Poor understanding of £30,000 exemption, difficulties with exemptions, PILONs, auto PILONs etc
  - Simplification: link exemption to statutory redundancy....
  - ....exemption becomes N x statutory redundancy
- **Accommodation benefits**
  - Existing rules anomalous, outdated
  - Recommendations: exclude basic accommodation
  - Base exemption round requirement to live in accommodation, working outside normal hours, regulatory requirements
  - Base benefit on open market value of rental
- **Other items:** Removal expenses, Long Service awards, etc

- **Measures of success**

- P11Ds – reduce to 40,000?
- Coding notices vastly simplified
- Employees understand what is going on
- More coherent system
- Significant reduction of burdens on employers/ees & HMRC

- **Overriding aim/question**

- Why should benefits be taxed differently from cash?

- **Bear in mind**

- This is based on a great deal of evidence gathering
- Revenue impact of changes...
- ...impact of changes (on HMRC, employers, employees)
- Winners & losers, transitions
- Our role: recommendations, catalyst...we don't make the rules!

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