IFS residential conference

The OTS project on Employee Benefits & Expenses

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www.gov.uk/government/organisations/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
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  - Existing rules anomalous, outdated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
EBE...conclusion

• **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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