Autumn Budget
Employment Taxes

Thy Will be done

Highlighting National Insurance and termination payment changes.

Different forms of remuneration

In the Spring Budget the government stated it wished to consider how the tax system 'could be made fairer and more coherent'. A call for evidence was subsequently published on employee expenses. The government's aim is to better understand the use of the income tax relief for employees' business expenses. It sought views on how employers currently deal with employee expenses, current tax rules on employee expenses and the future of employee expenses.

Following the call for evidence:

- the government announced that the existing concessionary travel and subsistence overseas scale rates will be placed on a statutory basis from 6 April 2019, to provide clarity and certainty. Employers will only be asked to ensure that employees are undertaking qualifying travel
- the government also announced that employers will no longer be required to check receipts when making payments to employees for subsistence using benchmark scale rates. This will apply to standard meal allowances paid in respect of qualifying travel and overseas scale rates. Employers will only be asked to ensure that employees are undertaking qualifying travel. This will have effect from April 2019 and will not apply to amounts agreed under bespoke scale rates or industry wide rates
- HMRC will work with external stakeholders to explore improvements to the guidance on employee expenses, particularly on travel and subsistence and the claims process for tax relief on employment expenses. This programme of work will also increase simplicity around the process for claiming tax relief and will take action to improve awareness of the process and the rules
- the government will consult in 2018 on extending the scope of tax relief currently available to employees and the self-employed for work-related training costs.

The government response to the call for evidence will be published on 1 December 2017.

Changes to termination payments

The government previously announced changes to align the rules for tax and employer NICs by making an employer liable to pay Class 1A NICs on any part of a termination payment that exceeds the £30,000 threshold that currently applies for income tax.

In addition, 'non-contractual' payments in lieu of notice (PILONs) will be treated as earnings rather than as termination payments and will therefore be subject to income tax and Class 1 NICs. This will be done by requiring the employer to identify the amount of basic pay that the employee would have received if they had worked their full notice period.

All these measures were due to take effect from April 2018. In November 2017 the government decided to implement a one year delay for the Class 1A NICs measure so the change will take effect from April 2019.

The government will legislate to ensure that employees who are UK resident in the tax year in which their employment is terminated will not be eligible for foreign service relief on their termination payments. Reductions in the case of foreign service are retained for seafarers. The changes will have effect from 6 April 2018 and apply to all those who have their employment contract terminated on or after 6 April 2018.

Comment

Currently 'non-contractual' PILONs may be treated as part of a termination payment and therefore exempt from income tax up to the £30,000 threshold and not subject to any NICs. Note that the changes to the treatment of PILONs for income tax and Class 1 NICs will still apply from April 2018.

Employer provided cars

The scale of charges for working out the taxable benefit for an employee who has use of an employer provided car are now announced well in advance. Most cars are taxed by reference to bands of CO2 emissions. Currently there is a 3% diesel supplement. The maximum charge is capped at 37% of the list price of the car.

In the current tax year there is a 9% rate for cars with CO2 emissions up to 50gm/km or which have neither a CO2 emissions figure nor an engine cylinder capacity (and which cannot produce CO2 emissions in any circumstances by being driven). From 6 April 2018 this will be increased to 13%, and from 6 April 2019 to 16%.

For other bands of CO2 emissions there will generally be a 2% increase in the percentage applied by each band from 6 April 2018. For 2019/20 the rates will increase by a further 3%.

The government announced that they will legislate to increase the diesel supplement from 3% to 4%. This will apply to all diesel cars registered from 1 January 1998 that do not meet the Real Driving Emissions Step 2 (RDE2) standards. There is no change to the current position that the diesel supplement does not apply to hybrid cars.

The change will have effect from 6 April 2018

Armed forces accommodation allowance exemption

The government will introduce an income tax exemption for certain allowances paid to Armed Forces personnel for renting or maintaining accommodation in the private market. A Class 1 NICs disregard will also be introduced.

The change will have effect from Royal Assent once regulations have been laid.

Future tax changes

A number of other proposed changes were announced. These include:

- exempting employer provided electricity provided in the workplace from being taxed as a benefit in kind from April 2018. This will apply to electricity provided via workplace charging points for electric or hybrid cars owned by employees
- the government will publish a consultation as part of its response to Matthew Taylor's review of modern working practices, considering options for reform to make the employment status tests clearer for both employment rights and tax.

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