



## Covid-19 Taxable Expenses Supplementary Guidance

### INTRODUCTION

In the current climate, many staff are required to change their working practices or there may be expense policy changes which means employees are incurring and claiming expenses that are outside of the norm. There can be tax implications associated with these changes. The Tax CoE has put together this taxable expenses document covering what we have seen as the most likely impacts and the questions raised to date with the Tax CoE.

This guidance won't cover every scenario and does not represent an expenses policy – i.e. **Your own Department expenses policies will apply in terms of what employees can and cannot claim.**

This is supplementary guidance to cover the period of the Covid-19 issue with the aim of helping you to better understand the tax treatments. **This does not replace or modify HMRC's own guidance which is available on gov.uk.** We have not covered everything in detail so you will need to refer to the HMRC guidance alongside this document. Key references to HMRC guidance and legislation can be found here and more specific links are provided in each section:

[ITEPA 2003 legislation](#)

[HMRC Employment Income Manual](#) and [A-Z of benefits](#)

[HMRC HS207 – Non-taxable payments or benefits for employees](#)

[HMRC guidance – How to treat certain employee expenses and benefits during COVID19](#)

[HMRC guidance – Working from home COVID-19](#)

### Contents

1. Home Working
2. Working from, or close to, your regular place of work
3. Working away from your regular place of work
4. Use of employer provided vehicles
5. Nursery places / childcare
6. Employer provided loans
7. Employer covering tax liability

## 1. Home Working

It is likely that an increased number of your department's staff will be working from home because your workplace is closed, you are following advice to self-isolate or are following general Government advice to work from home where you can.

### 1.1 Household expenses (such as electricity, heating and broadband)

**Household expenses** means expenses connected with the day to day running of the home. Where there is an arrangement in place for staff to work regularly from home and they are reimbursed for additional reasonable household expenses they incur in carrying out their duties, these will not be subject to income tax if in accordance with HMRC guidance. ([EIM01472](#)).

**Broadband Internet Charges** - If an employee starts homeworking and is already paying for a broadband internet connection at home then there is no additional cost. Therefore, any re-imbusement would be subject to Tax and NIC. However, if an internet connection is required for the performance of their duties under homeworking arrangements, with no connection currently in place, any reimbursement to install this would not be subject to tax ([EIM01475](#)). In this case, the broadband is provided for business and any private use must be limited.

**Reimbursement Amount** - HMRC recognise it may be difficult to calculate the exact amount of the additional cost of household expenses. HMRC allows tax free reimbursement using an agreed HMRC flat rate. However, this is not the maximum and greater amounts can be paid based on either actual cost or scale rate (based on an average additional cost). There are differing requirements for each ([EIM01476](#)). The flat rate for example can be paid on a weekly basis and was £4 per week until 5 April 2020, increasing to £6 per week from 6 April 2020.

If expenses are claimed outside of the flat rate then you should keep the appropriate records including receipts to evidence calculations and costs incurred.

### 1.2 Reimbursement of Other Costs

For reimbursement of other costs associated with working from home, these will generally be liable for tax unless they are incurred "Wholly, Exclusively and Necessarily" for the performance of employment duties and meet the strict criteria set out under [EIM31630](#). However, HMRC have recently announced a specific, temporary tax exemption for employer reimbursements of the cost of relevant home-office equipment ([HMRC Policy Notice](#)).

**Home-Office Equipment** – if employees need to purchase office and computer equipment to allow them to work from home and are reimbursed the cost, then this won't taxable provided:

- The equipment is obtained with the sole purpose of enabling the employee to work from home as a result of the coronavirus outbreak; and

- that it would have been exempt from income tax if it had been provided directly to the employee by or on behalf of the employer (see section 1.3 - this includes the proviso that there will be no significant private use).

This exemption runs from 11 June 2020 until 5 April 2021, although HMRC have stated that they will use their discretion and not collect tax and NICs due on any reimbursed payments made from 16 March 2020 until 11 June 2020. Under this exemption, there is no taxable benefit arising due to ownership of the equipment residing with the employee.

If employees are not reimbursed for the costs of this, then they can claim tax relief on their tax return or P87 form where the criteria under [EIM31630](#) are met – i.e. the amount claimed is incurred wholly, exclusively and necessarily in the performance of their duties of employment.

**Personal mobile phones** and network contracts - only additional costs incurred that relate to business use, where separately identifiable, are not liable for tax. E.g. Additional costs related to work calls would not be liable to tax but contract charges and personal calls would be liable if reimbursed. Specific HMRC guidance and an example on mobile phones can be found in [EIM32945](#)

### **1.3 Employer Provided Equipment, Supplies and Services**

There is no tax charge on expenses incurred by employers for supplies and services provided for home use, for example stationery and computer equipment to enable staff to perform their duties, provided that any private use is not significant. See [EIM21611](#) for further details.

However, a taxable benefit will arise if ownership of the equipment is transferred to an employee at any time, based on the market value of the equipment at the time of transfer less any contribution the employee may have made towards it.

**Mobile Phones** - Specifically, the provision of one mobile phone to a director or employee in most circumstances is exempt from tax. The exemption covers the telephone itself, any line rental and the cost of private calls paid for by the employer on that telephone. ([EIM21779](#)).

**Laptops, tablets, computers, and office supplies** - if these are mainly used for business purposes with no [significant private use](#), these are non-taxable. [HMRC Covid-19 guidance](#).

**Significant private use** ([HMRC Covid-19 guidance](#))

For items which are normally taxable, exemptions for work related benefits must show that there is no significant private use.

HMRC accepts this where:

- Your policy about private use is clearly stated to your employee and sets out the circumstances in which private use may be made (this may include making the conditions clear in employment contracts or asking employees to sign a statement acknowledging company policy on what use is allowed and any disciplinary consequences if the policy is not followed);
- any decision of the employer not to recover the costs of private use is a commercial decision, rather than rewarding your employee.

Significant private use should not be based on the time spent on different uses. It should be based on your employee's duties and the need for them to have the equipment or services provided so they can do their job.

**Record keeping** - you do not have to keep detailed records of every instance of private use to prove a claim for exemption.

## 2. Working from, or close to, your regular place of work

### **Travel**

Any expenses reimbursed for travel to or from your normal place of work and home will be subject to tax regardless of frequency or mode of transport. This includes that which would be considered substantially ordinary commuting i.e. travel which is substantially the same as your normal commute to work ([EIM32300](#)). However, there are some tax exemptions where this is paid for or provided by your employer ([EIM10210](#)):

A late night taxi where an employee:

- Is required to work later than usual until at least 9pm, public transport has ceased or it would not be reasonable to expect them to use public transport and this occurs irregularly with no more than 60 journeys in a year; or
- regularly travels to work in a shared car and due to unforeseen circumstances the car sharing arrangement is unavailable and the breakdown in the car sharing arrangement occurred after arrival at work.

### **Parking**

Provision of parking spaces ([EIM21685](#)) or reimbursing staff expenses ([EIM01030](#)) for parking at or near the workplace is not liable for tax.

### **Accommodation**

A benefit does not arise if your employer provides specific job related living accommodation e.g. for prison governors. For this to apply the accommodation would either be necessary for the proper performance of the employee's duties, the better performance of employment duties and it is customary to provide accommodation or it is provided as a result of a security threat ([EIM11331](#)).

If your employee needs to self-isolate but cannot do so in their own home, you may choose to reimburse hotel expenses and subsistence costs, however these are taxable ([HMRC Covid-19 guidance](#)).

### **Subsistence, subsidised or free meals**

Subsistence costs reimbursed at, or substantially close to, your regular place of work are subject to tax.

However, there is no tax charge for subsidised / free meals if provided in a staff canteen or on the employer's premises as long as the meal is of a reasonable scale, all employees at that location can obtain a free or subsidised meal (or a voucher for one). If this is in a canteen or restaurant where meals are provided to the public, part of the canteen/restaurant must be designated for staff use only (and the meal must be taken there) and it must not be part of salary sacrifice or flexible remuneration payments ([EIM21671](#)).

### **3. Working away from your regular place of work**

The rules concerning working from another office are subject to the normal Business Travel rules as set out in the HMRC [490 – Employee Travel a tax and NI guide](#).

Travel, accommodation and subsistence expenses are not taxable if it is necessary for the employee to attend in the performance of their duties of employment AND they are attending a “temporary workplace” to perform a task of limited duration or attending for a temporary purpose. A workplace can be a temporary workplace where:

- Attendance is for a limited duration not expected to last for more than 24 months, or, if less than 24 months, the duration is not all or almost all of the period for which he or she is expected to hold that employment; or
- the purpose of each visit is a temporary purpose e.g. where the reason for the visit is self-contained.

A workplace will not be deemed a temporary workplace where:

- An employee attends to perform continuous work which lasts or is likely to last more than 24 months and the duties are performed to a significant extent at that workplace e.g. more than 40% of duties are undertaken there; or
- the workplace is a base or a depot – somewhere the employee regularly attends to perform work or a place where the employee is routinely allocated tasks; or
- the geographical area in which the employee is working is deemed to be their permanent workplace – e.g. where the employee has no single permanent workplace but their employment is defined by reference to a geographical area (e.g. a worker whose role is to undertake home visits to customers in a particular region of the country).

However, if the journey to the temporary workplace is not significantly different from the employee's ordinary commute then any expenses claimed or travel provided by the

employer would be taxable. See Section 4.10 of HMRC 490 “Journeys treated as Ordinary Commuting” in the above link and the HMRC’s guidance on ordinary commuting ([EIM32300](#)).

Further useful information on taxation of travel and subsistence can be found at the following links:

[EIM31800: Deductions – Travel Expenses – Contents](#)

[EIM32005: Travel expenses: travel for necessary attendance](#)

[EIM31200: Employees using own vehicles for work](#)

#### 4. Use of employer provided vehicles

[EIM23400](#) states that where a car is made available by reason of an employee’s employment, the legislation provides that it will be automatically treated as having been made available for private use. However, the car benefit charge will not apply if:

- The terms on which the car is made available prohibit private use; and
- it is not used for private journeys (including for commuting)

For **Private User Scheme (PUS) vehicles** and **shared use vehicles** that don’t meet the conditions for a pool car (see below), it is acknowledged that there is private use and therefore gives rise to a taxable benefit.

For **pool cars and vans**, no benefit will arise if all the listed conditions in ([EIM23450](#)) are satisfied. The conditions include the vehicle being made available by reason of the employee’s employment to more than one employee, private use is merely incidental to the employee’s other use and it is not normally kept overnight on or in the vicinity of any residential premises where any of the employees were residing, except whilst being kept overnight on premises occupied by the person making it available to them.

For **Emergency Vehicles** there is a tax exemption. However, there are strict definitions of vehicle type and user for this to apply. Further details can be found in [EIM23600](#).

#### 5. Nursery places / Childcare

Generally, the provision of childcare is taxable. However, there are some exemptions including for employer provided childcare for employee’s children. There are 4 conditions to be met for this to apply relating to the child, the premises, registration requirements and the extent to which it is available to all employees at that location ([EIM22001](#)). In addition, there are limited exemptions where childcare is supported by childcare vouchers ([EIM16050](#)). To note also, these expenses are exempt where colleagues are taking part in work related training, ([EIM01240](#)).

## 6. Employer provided loans

A salary advance or loan to help your employee at a time of hardship counts as an employment-related loan. Loans provided with a value less than £10,000 in a tax year are non-taxable. Further HMRC guidance on loans provided to employees can be found in [HMRC guidance – loans provided to employees](#).

## 7. Employer covering tax liability

HMRC have provided new COVID-19 advice on which expenses are taxable when working from home. Specifically, they have provided guidance on the use of PAYE Settlement Agreements (PSA) and other reporting requirements for taxable benefits ([HMRC Covid-19 guidance](#)).

All taxable expense payments or benefits may be included in a PSA where there is a direct connection between the expense payment or benefit and the Covid-19 pandemic.

If you do not have a PSA in place already, the normal process for **applying for a PSA** applies – see HMRC guidance [here](#).

You can use an existing PSA for COVID19 related taxable expenses or benefits but the normal process for **varying your PSA will apply**. Therefore if an employer wishes to include any additional expenses or benefits which relate to COVID-19, this [HMRC guidance](#) should be followed.