J H GREENWOOD & COMPANY

CHARTERED ACCOUNTANTS

Employee Expenses

FACTSHEET

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This factsheet considers the operation and reporting of employee expenses and benefits.

The exemption regime

An exemption may apply to the reporting of employee expenses on forms P11D as long as the necessary conditions are met. Under the exemption the business must satisfy itself that the employee would be entitled to full tax relief on the expenses reimbursed.

The exemption

An exemption applies which effectively means that businesses will not have to pay tax and NIC on paid or reimbursed expenses payments or report them on a P11D. The exemption places the onus on employers to determine whether employee expenses are fully deductible for tax purposes.

Types of expenses

The main types of expenses to which the exemption applies are:

- travel and subsistence expenses
- fees and subscriptions
- business entertainment expenses.

All other non-allowable expenses are still reportable on a P11D and/or subject to PAYE (and possibly NIC). Employees are able to claim tax relief in respect of unreimbursed business expenses.

The exemption does not apply to expenses or benefits provided under a relevant salary sacrifice arrangement. This includes any arrangement where an employee gives up the right to receive earnings in return for tax free expenses payments or where the level of their earnings depends on the amount of any expenses payment.

Conditions of the regime

In order for an employee reimbursed expense to be treated as an exempt payment, an employer needs to put himself in the position of the employee. The employer then asks themselves the question - was the expense incurred 'wholly, exclusively and necessarily in the performance of employment'. If so, the expense would be fully tax deductible and as such, exempt from tax and NICs on reimbursement.

An employer should consider:

- setting out a corporate policy of which type of expenses are reimbursable and the need for those expenses to be reasonable
- requiring the completion of a standard expense claim form
- the need for any expense claim to be supported by a receipt
- making checks on expense claims
- requiring a senior person to authorise the claims.

What about scale rates?

The rules allow amounts based on scale rates to be paid or reimbursed, instead of the employee's actual costs in certain circumstances. Scale rates are generally for travel and subsistence expenses and consist of round sum allowable amounts for specific circumstances.

Two key types of scale rates are available for use by an employer:

- 'benchmark' rates and
- 'bespoke' rates.

Benchmark rates

Benchmark rates are a set of maximum reimbursement rates for travel and subsistence. These round sum amounts can be used by employers for payment or reimbursement of employees expenses where relevant qualifying conditions are met.

These rates apply only if the employee incurs expenditure in the course of 'qualifying business travel' as follows:

- one meal allowance per day paid in respect of one instance of qualifying travel, the amount of which does not exceed:

a) £5 where the duration of the qualifying travel in that day is 5 hours or more

b) £10 where the duration of the qualifying travel in that day is 10 hours or more, or

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c) £25 where the duration of the qualifying travel in that day is 15 hours or more and is on-going at 8pm or

- an additional meal allowance not exceeding £10 per day paid where a meal allowance (a) or (b) is paid and the qualifying travel in respect of which that allowance is paid is on-going at 8pm.

In addition to the benchmark rates for meals, there are also benchmark rates for incidental overnight expenses:

- £5 per night for qualifying travel within the UK
- £10 per night for qualifying travel outside of the UK.

Bespoke rates

These are rates negotiated and specifically agreed with HMRC in writing. If the business wants to pay bespoke rates for meals or other types of expenses, it can apply to HMRC.

HMRC has issued a specific form: PAYE: employers expenses and benefits exemption

Checking

There is no need to require receipts when making payments to employees for subsistence using benchmark scale rates. This applies to standard meal allowances paid in respect of qualifying travel and for incidental overnight expenses. Employers still have to ensure that employees are undertaking qualifying travel.

HMRC has issued guidance on what checking systems they expect employers to operate. We can assist you with this matter or in applying for bespoke rates so please contact us for more information.

Business mileage rates

The key travel and subsistence expenses for many employees are their costs in using their own car or van for business travel. Many employers and their employees use the statutory mileage allowances known as 'authorised mileage allowance payments' (AMAPs). These are scale amounts that employers can pay to employees using their own vehicle for business travelwithout attracting tax or NICs.

For cars and vans, the scale rate is 55p (45p until 6 April 2026) per mile for up to 10,000 miles in the tax year and 25p per mile above this.

AMAPs are a separate statutory regime and do not come within the new exemption regime.

For employer provided vehicles the fuel advisory rates can be used to reimburse fuel costs incurred in travelling on business. These advisory fuel rates are updated quarterly throughout each tax year.

Qualifying travel expenses

Qualifying travel is a necessary condition for both travelling and subsistence expenses to be treated as an exempt expense (and also in the use of business mileage rates for cars and vans). A business journey is one which either involves travel:

- from one place of work to another or
- from home to a temporary workplace or vice versa.

However, journeys between an employee's home and a place of work which he or she regularly attends are not business journeys. These journeys are 'ordinary commuting' and the place of work is often referred to as a permanent workplace. This means that the travel costs have to be borne by the employee. Reimbursement of commuting expenses will not be exempt.

The term 'temporary workplace' means that the employee attends the place for a limited duration or temporary purpose. However, some travel between a temporary workplace and home may not qualify for relief if the trip made is 'substantially similar' to the trip made to or from the permanent workplace. 'Substantially similar' is interpreted by HMRC as a trip using the same roads or the same train or bus for most of the journey.

There will be many variations of types of journeys undertaken by employees so ensuring that it is a business journey is critical especially as the term 'travel expenses' includes the actual costs of travel together with any

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subsistence expenditure and other associated costs that are incurred in making the journey such as toll or congestion charges.

How we can help

We can advise on the creation and implementation of a robust expenses system. We can also help with the completion of annual forms P11D. Please contact us for any further assistance or advice.

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