United Kingdom

UK Government consults on major reform of UK tax reliefs for travel and subsistence expenses

**Executive summary**

As part of a tax simplification initiative the UK Government is undertaking a consultation on the reform of the existing tax rules on travel expenses, including travel related subsistence such as the cost of meals and accommodation on business journeys. The current rules include a very generous relief under which employees on a domestic or international assignment to a temporary workplace may have travel and related subsistence paid free of tax for up to two years (or to deduct them if paid personally). Changes to these rules are likely to have far reaching consequences for all employers and especially for employers who second staff internationally.

The consultation started in September with meetings advisers and large employers on the wider framework for travel and subsistence to be applied in the future. We expect the timeframe from now until new legislation is in force to take at least two years and will be actively engaging with the Government and our clients during this period.

**Key issues**

The existing regime for claiming tax relief on travel and subsistence works well, but it is complex and arguably inappropriate to 21st century working patterns. In particular a recent review has highlighted difficulties in deciding whether a workplace is a temporary or a permanent one: a decision that lies at the very heart of the current regime. As travel between home and a permanent workplace, or between two permanent workplaces, is currently regarded as private travel and taxable if reimbursed, this issue is likely to remain critical.

While it is impossible to be definitive about any probable changes at this stage, the following aspects are likely to be considered:

- Relief for costs associated with temporary assignments is likely to continue in some form, but to be subject to reform. The current rules are based on the intended length of assignment, although other factors, such as total time spent in the employment are also relevant. Together these can create uncertainty about the availability of relief and a more definitive relief for short term assignments may be adopted. The probability is that more certainty would come at the cost of relief being available for a shorter period which would have a significant cost impact on employers sending assignees to the UK.

- More generally workplaces are only
regarded as temporary where they are visited for a temporary purpose and additional tests around the proportion of working time that may be spent in any temporary workplace can make this rule difficult to apply. Simplification of this test would be very welcome.

As an alternative, it has been suggested that tax relief should be available for those business expenses that employers are prepared to reimburse and for no other costs. While this would be a radical solution, its simplicity makes it attractive, albeit that safeguards against abuse would probably be needed.

As mentioned the consultation process is at a very early stage. UK tax proposals are usually considered at either the autumn statement (around December) and or the Budget (around March), but nothing more than high level comment about the review being ongoing is expected before the autumn statement of 2015. Any changes in law are unlikely to be released before the 2016 Finance Bill, and may be subject to delay, especially if other fiscal priorities emerge after next year’s General Election.

Implications
The review is likely to mean a period of uncertainty for employers as reforms are announced and then amended. When the law changes employers will need to update policies and systems to accommodate the reformed regime, which will mean administrative cost. Some potential tax cost increases may also be expected, in that any proposed changes will have to be tax neutral as a whole in order for them to be adopted. Inevitably, this is likely to mean winners and losers as compared to the existing regime, and employers will want to minimise any extra cost associated with their employee populations.

Next steps
There is a long way to go in terms of this consultation and opportunities still exist to influence the reform and to help in shaping the final proposals. As noted above, we will be closely engaged in developments in this area. Please contact one of the team below, or your usual EY contact, if you want to discuss the impact the proposals could have on your business or ways in which you can help to shape them.