

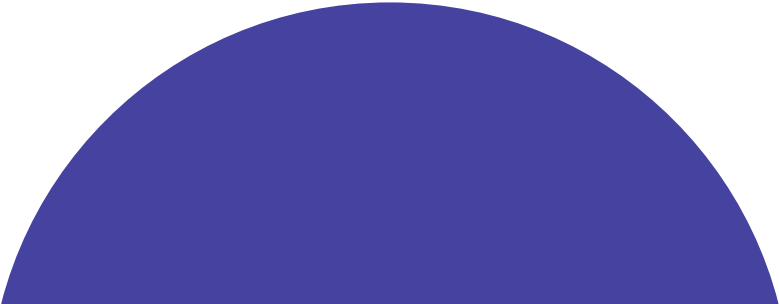


i-paye



## Fixed Expense Model

A Guide to the Expense Allocation Process



# Guide to Fixed Expenses Model For Professional Contractor Employees

## Introduction

On 6 April 2016 the UK Government amended the rules around the reimbursement of Travel and Subsistence with a view to applying a Nationwide Agreement that any expense could be reimbursed free of Tax (Income Tax and National Insurance). To prevent abuse by some they included provisions to prevent workers sacrificing pay which would have been subject to Tax, for expenses that would be tax free.

HMRC subsequently amended the draft legislation to bring workers employed by Professional Employment Companies (formerly known as Umbrella's) within scope, unless it could be demonstrated that the amount of pay did not vary based upon the amount of expenses reimbursed. Therefore, the level of expenses must be fixed for each client assignment.

## Fixed Expense Model

HMRC have confirmed that in order for the fixed expense model not to be treated as a relevant salary sacrifice scheme the following must apply.

- A fixed amount must be retained from the amount billed each day and allocated to a separate expenses pot.
- From this pot expenses, that have been incurred wholly, exclusively and necessarily (WEN), in the performance of the employee's duties can be reimbursed.
- If the expenses incurred are higher than the value in the pot then these cannot be reimbursed, until there is sufficient money in the pot to cover them.
- If the expenses incurred are lower than the value of the pot then any remaining value cannot be reimbursed as additional remuneration, bonus etc.
- Mileage and incidental expenses (overnight stays) is not included as they are statutory expenses not covered by the change.
- The expenses must relate to travel to a temporary workplace.
- Any expenses billed up the contractual chain can be reimbursed tax free as long as the expenses are allowable as WEN.
- The fixed amount can only change upon commencing a separate assignment, at a different location.

## **I-PAYE Fixed Expense Model**

Assuming that a worker is able to pass the relevant tests that the workplace is considered temporary then the following process will take place.

At the beginning of each qualifying assignment an assessment will be undertaken on the likely level of expenses that the employee will be incurring. This will form part of the illustration that will give the worker confirmation as to whether the contract is viable taking into account the expenses incurred.

The expenses that will be included are: -

- Accommodation and ancillary costs incurred, whilst staying away from the normal residence.
- Overnight meals incurred.
- Travel costs including public Transport, Airfares, Taxis, Ferry and Trains (not mileage).
- Daily meals incurred.
- Car Parks, Road and Tunnel Tolls.

What will not be included are: -

- **Mileage no matter the vehicle.**
- Incidental Expenses.
- Work Wear / Protective Clothing.
- Small Tools.

Once the Fixed Expense Allowance (FEA) amount is calculated and agreed then this weekly amount will be divided by the standard working week and the weekly amount will show as a deduction on the income breakdown that is provided to each employee.

The expenses reimbursed will then show on the payslip as: -

- Expenses Allocated.
- Mileage / Incidentals.

There may be a difference between the amount deducted and the amount reimbursed if: -

- You have incurred less expenses than you advised at the outset of your assignment; or
- You haven't submitted an expense claim and / or items have been disallowed.

## Frequently Asked Questions

### **Q. What happens if I fail to submit my expenses?**

A. The system will still deduct an amount of expenses in line with what you advised and as this sits in the pot then you will be able to submit a late claim and this will then be paid out with next week's payroll.

### **Q. What happens if I submit an expense claim higher than I estimated?**

A. We can only reimburse up to the value that you advised and any excess of expenses will be carried forward. If they remain unreimbursed at the end of the tax year, then you may be able to make a claim directly against your taxable income with HMRC.

### **Q. What happens to any unused FEA?**

A. Any unused FEA cannot be paid out as additional income to you, it may be possible to make an extra contribution in to your workplace pension or a donation to a charity. If we do pay out the FEA as additional pay then all expenses reimbursed for that assignment will become subject to Tax and reportable to HMRC.

### **Q. How can I make sure that I don't have any unused FEA?**

A. Be reasonable with your expectation of expenses. Don't overestimate as it will result in you losing money we would rather you had. Don't forget any used expenses can be used to reclaim tax at the end of the Tax Year by a claim on a self-assessment or tax repayment claim.

### **Q. What happens if my expenses reduce or increase on a particular assignment?**

A. The rules suggest that we can only amend the FEA on a new assignment with a new client, so if you increase or decrease your expenses then the FEA will remain the same for that assignment.

### **Q. Is there any limit on the expenses that can be claimed?**

A. Whilst technically you could set the FEA at 100% of the amount we invoiced, we would automatically allocate parts of the amount we invoice to:

- National Living Wage, National Minimum Wage or other agreed rate above these for each hour worked.
- Employers National Insurance.
- Holiday Pay.
- Workplace Pension.
- Apprentice Levy.
- Our Margin.

Only after accounting for the above will there be any ability to allocate any residual income to the FEA. As currently stands an FEA that is a substantial amount of the rate we bill may be queried as part of our existing audit process.



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