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REIMBURSING EMPLOYEES FAIRLY FOR USING THEIR OWN CAR FOR WORK

Representation by Association of Taxation Technicians in respect of the Autumn Statement 2023

1 Introduction

- 1.1 The Association of Taxation Technicians (ATT) considers that, in the light of high inflation, the Government should increase the amount that drivers can be paid tax-free for using their own car for work. The current rates have been unchanged for over 12 years, during which time the cost of running a car has increased substantially.
- 1.2 The vast majority of private employers who contribute towards the costs of business travel by car use 'HMRC-approved' rates. As these have been frozen for so long, employees are no longer being reimbursed the true cost of their business travel. This particularly impacts those at the lower end of the wage spectrum, such as care workers, who have no choice but to use their own cars.
- 1.3 An employer who chooses to pay higher rates to better reflect the current costs of motoring will create a tax cost for themselves and their employee, as well as additional administration calculating and reporting the charge for each employee. HMRC then in turn incur costs processing the reports and amending employee tax codes to collect any tax due. Some Government departments and local authorities choose to pay higher rates, which increases both their administration costs, and those of HMRC. We suggest that increasing payment rates could reduce administration costs and result in a fairer outcome for staff.
- 1.4 The primary charitable objective of the ATT is to promote education and the study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the experience of our members who assist thousands of businesses and individuals to comply with their taxation obligations. This response is written with that background.

2 Our recommendation

- 2.1 Approved Mileage Allowance Payments (AMAPs) provide a statutory exemption from tax for payments by employers to employees who carry out business travel in their own vehicles. Our recommendation is that all of the AMAP rates set out in s230 ITEPA 2003, should be updated to better reflect the current costs of running and maintaining a personal vehicle. Thereafter, AMAPs should be reviewed and updated on an annual basis.

- 2.2 The structure of AMAPs could also be simplified by dropping the two-tier approach for cars based on the total mileage in the tax year, and replacing it with a simpler, single rate.

3 Background to our recommendation

- 3.1 AMAPs exist as a statutory simplification to allow employers to reimburse their employees for business travel without tax consequences for either party. The rate which can be paid tax-free depends on the vehicle used and, in some cases, the mileage travelled.
- 3.2 An employee using their own car or van can be reimbursed at the main rate of 45p/mile for the first 10,000 miles of business travel, and 25p/mile for any mileage beyond that. An additional 5p/mile can be paid per passenger, provided that the journey is also business travel for the passenger.

The rate for employees using motorcycles is 24p/mile.

Where an employer uses their bicycle for work, the approved rate is 20p/mile.

- 3.3 The main rate for cars and vans for the first 10,000 miles was last changed in April 2011. The rates for mileage in excess of that limit, and for motorbikes and cycles have been unchanged since at least 2001. These rates are now so out of date that employees doing business mileage on behalf of their employer are effectively out of pocket.
- 3.4 If an employer chooses to pay higher mileage rates which better reflect the cost to their employee of running a vehicle, this creates tax implications for both the employee and employer. Calculating and reporting these tax consequences creates additional administration for the employer and additional work for HMRC in processing and collecting relatively modest amounts of tax.
- 3.5 The NHS, and a number of local authorities, pay rates that vary from the HMRC rates. Generally higher rates are paid for small amounts of business travel and lower rates when travel increases. Depending on the employee's mileage over the tax year, what they are paid may be higher or lower than the tax-free amounts possible using HMRC rates. Those employees who have received more than HMRC rates must pay tax on the extra, while those who received less, can claim tax relief on the shortfall. If the HMRC rates were updated more regularly and set at a level that other Government departments and local authorities were prepared to accept, this would simplify the position for employees, introduce consistency between the private and public sector and reduce administration costs across Government.
- 3.6 Where the employee is either not reimbursed for business travel or reimbursed at a lower rate than the AMAPs rates, they can claim tax relief on the difference between what, if anything, they have been reimbursed and what they would have been entitled to using AMAPs. Increasing AMAPs would therefore still benefit those employees whose employer did not want to pay the full HMRC rates.
- 3.7 We do not have the evidence to suggest specific rates based on the current cost of motoring, but as an indication of the potential uplift needed, the Bank of England's inflation calculator¹ suggests that 45p in 2011 would be worth 63p by August 2023, and 25p from 2001 would be 45p.

¹ <https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator>
ATT/ATTTSG/Submissions/2023

4 Contact details

- 4.1 We would be pleased to join in any discussion relating to this representation. Should you wish to discuss any aspect of this representation, please contact our relevant Technical Officer, Helen Thornley on atttechnical@att.org.uk.

The Association of Taxation Technicians

3 October 2023

5 Note

- 5.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government, and academia.

The Association has more than 9,500 members and Fellows together with over 5,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.