

Specified Individuals: -

All employees including directors, except those in a position to authorise reimbursement of their own expenditure.

Nature of Expenses, Payments and Benefits provided: -

Travel and Subsistence

Payment of travelling expenses, paid direct by the employer or reimbursed on production of receipts, and necessarily incurred in travelling in the performance of the duties of the employment, or travelling to a temporary workplace.

Travel expenses may include other incidental costs that form an integral part of the business journey, such as toll fees, congestion charges and car parking fees but excluding fines for parking or speeding.

Travelling expenses may include the cost of subsistence or overnight accommodation to the extent that it is necessary for the travel.

All expenditure must be of a reasonable amount considering the prevailing circumstances at the time the expenditure is incurred and represent reimbursement of the actual amounts expended verified by production of the appropriate receipts.

(Receipts should always be obtained but where this is impossible- for example parking meters, taxi fares or vending machines, reasonable un-receipted reimbursement may be made within the terms of this dispensation)

Payments for ordinary commuting, private travel and any payments in respect of a spouse or family member are specifically excluded from the Dispensation and must be reported on form P11D.

Business Mileage Payments - Company Cars

Reimbursement of business journeys only, for employees using a company car excluding any private use (which includes home to office/office to home journeys).

If the mileage allowance is more than the cost of the fuel used for business purposes calculated using the Inland Revenue's Advisory Fuel Rates, the 'profit element' will be chargeable to Tax and liable for Class 1 NICs in the normal way and the terms of this dispensation will be considered to be invalid.

Hire Cars

The receipted cost of car hire. Authorised private use, incidental to the business element of the use of the car, i.e. where it is impractical for the car to be returned on a Friday, the employee returns the car on the Saturday morning, taking the car home for the night. Reimbursement of petrol for the business use of the hire car on production of receipts.

Business Entertaining

The actual reasonable cost of entertaining on a genuine business occasion, providing that a client, supplier or other business connection from an outside organisation is present.

Examples of business occasions, which can be covered by a Dispensation, are:

- Lunches etc. for customers or potential customers at which business is discussed
- Product launches etc. for customers, potential customers, suppliers and professional advisers where business is discussed
- Entertaining at exhibitions etc. at which products are on display for customers

Entertaining Expenses not covered by Dispensation:

- Entertaining personal friends or business acquaintances where there is no business obligation to entertain them
- Reciprocal entertaining between business acquaintances
- Entertaining colleagues and/or employees of the same organisation
- Entertaining occasions when there is no customer, client, supplier or other business contact present
- Additional costs relating to spouse, partner, or family accompaniment.

Sundry Business Expenditure

Expenditure the employee is obliged to incur wholly, exclusively and necessarily in the performance of the duties of the employment and reimbursed on production of receipts or vouchers.

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This dispensation is granted on the understanding that receipts are provided in support of all expense claims where practically possible, and all expense claims are independently checked and authorised within the company and no employees or directors authorise their own expenses claim.

NOTES TO ACCOMPANY DISPENSATION
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(a) Travel – Exclusion of ordinary commuting

Travel between an employee's home and his/her normal place of employment is not business travel and is not covered by this dispensation.

(b) Incidental Overnight Expenses

Excluded from this dispensation are items of personal expenditure for example; laundry, videos, newspapers, bar and mini-bar bills and private telephone calls. These types of "Incidental overnight expenses" are covered by specific legislation. For further information please see Appendix 8 of the Inland Revenue booklet 480 and the notes at (c) below.

(c) Incidental Overnight Expense Tax-free Limits

- i. Up to £5 per night for overnight stays anywhere within the United Kingdom (Great Britain and Northern Ireland) and
- ii. Up to £10 per night for stays outside the United Kingdom.

Where these limits are exceeded the whole of the payment becomes taxable not just the excess.

(d) Motor Mileage Allowance

From 6 April 2002 a dispensation is no longer required for mileage payments for business travel in the **employees own vehicle**, where the amounts paid do not exceed the Revenues approved mileage allowance payments (AMAP's). Excess paid over the approved amount must be included on form P11D for tax purposes and included with earnings for NIC.

For further details please see Chapter 5, pages 85 and 86 of the booklet CWG2 (2006) the Employers Further Guide to PAYE and NICs

(e) Training Expenses

From 6 April 1997 a wide statutory exemption exists for work related training and related costs, under Section 250 – 252 ITEPA 2003. Subsequently it is not necessary to include these types of expenses in a dispensation. For further details please see Appendix 9 of the 480 booklet of "Expenses and Benefits".

(f) Purchases on Employer's behalf

Businesses are often run in such a way that employees make payments on their employer's behalf. For example an employee may buy stamps, stationery and items of equipment for the employer and be reimbursed the costs incurred from petty cash or by cheque. These transactions do not provide the employee with either earnings or expenses because the employee has received no money of his own. Accordingly such reimbursements need not feature on the P11D (Booklet 480 chapter 5)

(g) Mobile Phones

For 1999/2000 and later years the provision of a mobile phone to an employee is exempt from charge (Section 319 ITEPA). From 6 April 2006 employers are only able to make available **one** mobile telephone for private use by the employee (telephones available to members of the employees' family and household are no longer covered by the exemption). From 6 April 2006 vouchers for the provision of a mobile phone by the employer are exempt under Section 266(2) ITEPA.

Where an employee makes business calls on their own private mobile phone and their employer reimburses the cost of the phone, private calls or any service charge the amounts paid are liable to tax and NIC.

(h) In-house meetings / Working Lunches

Section 317 ITEPA 2003 provides exemption where the meal is provided: -

- in a canteen where meals are available to employees generally, or
- on the employer's premises, provided that,

the meal is on a reasonable scale and all employees may obtain a free or subsidised meal on the employers premises or elsewhere.

This exemption applies to light refreshments as it does to meals, and if all employees may get a free or subsidised meals on the employers premises or in a canteen, then working lunches on a reasonable scale provided on the employer's premises will also be exempt even if not all of the employees get the working lunches.

Where *the above conditions necessary for exemption are not met a benefit charge will arise.*

(i) Medical Check Ups and Eye Tests

The provision by an employer of routine medical check ups for all employees, or the cost of an eye test for VDU users in accordance with EU regulations, and the cost of spectacles required solely for VDU use, does not confer a chargeable benefit on those employees. Where spectacles are for general use but include a special prescription for VDU use, the proportion of the cost relating to the special prescription will not be a chargeable benefit.

The provision or payment towards the cost of spectacles for general use, including use with a VDU which do not include a special prescription for VDU use will give rise to a taxable benefit and should be reported on P11D.

(j) Car Parking Near Work

Any payment or reimbursement of expenses in connection with the provision for or use by an employee of a car parking space at or near the employees workplace is not chargeable to tax by virtue of the exemption at Section 237 ITEPA 2003.

Company Cars - Advisory Fuel Rates for Company Cars

Use of advisory fuel rates

The advisory fuel rates (guidelines on **fuel only** mileage rates for company cars) were first published in January 2002. It has been possible to use them since then to negotiate dispensations for mileage payments for business travel in company cars.

They are intended to reflect actual average fuel costs at the time they are set. The aim is to save time for both employers and the Revenue by setting out some figures that can be used in the majority of cases. They give employers more certainty about what the mileage rates that they choose to apply mean for tax and National Insurance contributions (NICs).

The rates only apply where employers:

- reimburse employees for business travel in their company cars, or
- require employees to repay the cost of fuel used for private travel.

The rates do not apply in any other circumstances. In particular, employees driving company cars are not entitled to use them to claim a deduction if employers reimburse them at lower rates. Such claims should continue to be based on actual costs incurred.

Employers reimbursing employees for the cost of fuel used for business travel

If the rate paid per mile of business travel is no higher than the advisory rate for the particular engine size and fuel type of the car, we will accept that there is no taxable profit and no Class 1 NICs liability. This reflects the fact that they are intended to reflect actual average fuel costs.

We are not suggesting that employers should always use these rates for reimbursing employees for business travel in company cars. The advisory rates represent average fuel costs, and employers may wish to set rates which better reflect their particular circumstances. For example, where the cars in the fleet are fuel efficient, employers may prefer to reimburse at lower rates than those outlined here.

The advisory rates will not be binding where an employer can demonstrate that the cost of business travel in company cars in the fleet concerned is higher than the guideline mileage rates - perhaps where employees need to use particular types of car such as 4x4s to cover rough terrain.

If an employer pays mileage rates that are higher than the advisory rates but is unable to demonstrate that the fuel cost per mile is indeed higher, there is no fuel benefit charge if the mileage payments are made solely for miles of business travel. Instead, any excess will be treated as a taxable profit and as earnings for Class 1 NICs purposes. The employee can obtain relief for any actual expenses which have not been reimbursed.

Employers who require employees to repay the cost of fuel used for private travel

Providing that all of the miles of private travel have been properly identified, we will accept that there is no fuel benefit charge, and therefore no Class 1A NICs liability, where the employer uses the appropriate rate from the table below (or any higher rate) to work out the cost of fuel used for private travel that the employee must repay to the employer. Again, this reflects the fact that they are intended to reflect actual average fuel costs.

Even if it seems that the actual cost of the fuel could be more than the current advisory fuel rate, it is only in exceptional cases that we will consider arguing that a higher repayment rate should apply. For

example, where the employee drives a very large-engined company car that achieves fewer than 16 or 17 miles to the gallon. But we will always accept that the guideline rates can be used to calculate the amount that the employee must make good where the engine size is 3 litres or less.

The advisory rates will not be binding where an employer can demonstrate that employees cover the full cost of private fuel by repaying at a lower rate per mile.

Dispensations not drawn in terms of the advisory fuel rates

Many dispensations contain rates at which employers are entitled to reimburse employees for fuel which the employee has purchased for business mileage in a company car (including a pool car) without any tax or NICs implications. Some of these dispensations quote specified rates per mile, others refer to the advisory fuel rates.

From 1 July 2005, HMRC will interpret all such dispensations (but not any in relation to vans, to which the advisory fuel rates do not apply) as though they referred to the advisory fuel rates unless the specified rate is higher. We will not issue revised dispensations, nor will employers need to apply for one, in order for this change to take effect. Either side can, of course, review other aspects of existing dispensations in the normal way.

This does not mean that employers must pay higher rates than their own policies require. It simply allows dispensed rates to be varied centrally, relieving both sides of the administrative burden of regular updates for this single purpose.

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Company Cars - Advisory Fuel Rates for Company Cars from 1 February 2007

These rates apply to all journeys on or after 1 February 2007 until further notice:

Engine Size	Petrol	Diesel	LPG
1400cc or less	9p	9p	6p
1401cc to 2000cc	11p	9p	7p
Over 2000cc	16p	12p	10p

Petrol hybrid cars are treated as petrol cars for this purpose.

Where employers have practical difficulties implementing the new lower rates they can continue to use the older higher rates for a further month, i.e. to 28 February 2007, without having to take account of the income tax, NIC and VAT implications of paying allowances at the higher rate. This will allow time for drivers and employers to adjust to the new rate.

This treatment will extend to those employers with dispensations for fuel rates which are linked, usually by a formula, to AFRs.

Employers can however use the new lower rate with effect from 1 February for employees with fuel cards who reimburse their employers for private fuel bought with a company fuel card.

These rates are calculated from the fuel prices in the table below:

Fuel	Engine Size (cc)	Mean MPG	Applied MPG	Fuel price (per litre)	Fuel price (per gallon)	Pence per mile	AFR
Petrol	up to 1400	46.7	42.0	86.3	392.2	9.3	9
Petrol	1400 - 2000	38.5	34.7	86.3	392.2	11.3	11
Petrol	over 2000	27.9	25.1	86.3	392.2	15.6	16
Diesel	up to 2000	50.3	45.3	90.5	411.2	9.1	9
Diesel	Over 2000	37.5	33.7	90.5	411.2	12.2	12
LPG	up to 1400	37.4	33.6	45.5	206.9	6.2	6
LPG	1400 - 2000	30.8	27.7	45.5	206.9	7.5	7
LPG	over 2000	22.3	20.1	45.5	206.9	10.3	10

Notes:

1. Mean mpg - miles per gallon - from manufacturers information, weighted by annual sales to businesses (Society of Motor Manufacturers and Traders (SMMT), 2005).
2. Applied mpg - adjusted downwards by 10% to take account of real driving conditions and lower fuel economy for older cars
3. For LPG, mpg is assumed to be 20% lower than for petrol due to lower volumetric energy density
4. Department of Trade & Industry's latest petrol and diesel prices (January 2007), LPG from AA website (January 2007).

Will the rate per mile figures change if fuel prices go up or down?

We aim to provide employers with as much certainty as possible by keeping the fuel rates unchanged

where there are modest variations in fuel prices. In line with the commitment made when they were introduced, they will be reviewed during a tax year only in the event of a variation in fuel prices of greater than 10% from the prices used at that time.

VAT

Customs will also accept the figures in the table for VAT purposes though employers will need to retain receipts in line with current legislation.

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