

Consultation on the tax and NICs treatment of employer subsidies of public bus services

The Government wishes to hear views on the proposition that the existing tax, and Class 1A National Insurance contributions (NICs), exemption in relation to employer subsidised public bus services should be extended, so allowing employees free or reduced cost travel to work, as on employer provided works buses.

In the UK the cost of commuting to and from work has always been seen as a personal liability to be paid for out of net earnings. The Government believes that employees should, in general, pay tax and NICs on employer-provided benefits. However, this Government has created a few targeted tax exemptions to make it easier for employers to set up **travel plans**.

Travel plans are packages of measures used by employers to reduce their employees' commuting in single occupancy cars. The Government is keen to foster **travel plans** as part of its commitment to reducing congestion and improving the environment by reducing green house gases and local air pollution.

Finance Acts 1999-2001 introduced a number of green transport measures including two relating to buses. These are -

- To allow employers to provide a bus for conveying employees between home and the workplace or between one workplace and another without this benefit generating a tax liability. From April 2002 the minimum size of a provided works bus is reduced from 12 passenger seats to 9 so that smaller companies can use minibuses to provide such a service. (The relevant legislation is section 197AA of the Income and Corporation Taxes Act 1988.)
- To allow employers to support public passenger road transport services (generally buses) to ensure they offer the services required by their employees. This is now section 197AB of the Income and Corporation Taxes Act 1988.
- But the second tax exemption only applies if employees pay the same price for tickets on the buses as other passengers. Some employers say they find this a limiting factor in their decision whether or not to support local bus services.

The Government has received representations that, in principle, many employers would prefer to subsidise an existing local bus service rather than run a bus themselves. But they want their employees to see some real benefit. They urge that the exemption relating to subsidising public bus services should be extended so that where an employer pays a subsidy to a local bus company it would be possible for employees to be carried free or pay reduced fares without creating a tax and NICs charge.

This would level the playing field with "works buses" paid for by an employer for the exclusive use of employees where travel can be provided free or at reduced cost without creating a tax and NICs charge.

Proponents of this change believe it would encourage the retention and development of local bus services, available to the general public, unlike the tax relief for works buses which only benefits a company's employees.

There are potential benefits for employers who subsidise public services. These are -

- They can negotiate a contract with a local bus company knowing exactly what the annual cost will be;
- They do not have to run a bus service;
- They may save the costs of providing car parking spaces;
- Even part time employees or occasional bus users can benefit;
- They are contributing to the local community.

The Government is keen to achieve fewer single occupancy car journeys and for local bus services to thrive. It is therefore considering representations to widen the tax exemption in relation to employer subsidies of public bus services.

To help assess the likely impacts of this, the Inland Revenue commissioned the research company NOP to conduct a survey of around 2000 employers, asking how such an exemption might affect the likelihood that they would subsidise local buses. The results of this survey have just been received and are now being analysed. In addition, we would welcome responses from any interested parties on the following points –

1. Would it be appropriate to limit reduced cost journeys, free of tax and NICs liability, on public buses subsidised by employers to local bus services operating within a radius of, say, 10 miles from the workplace?
2. Should the subsidies that employers can pay to bus providers be limited to a maximum amount per employee? If so, how much?
3. What benefits would there be to local/ community bus services particularly in rural, or out of town, areas?
4. How many car journeys are likely to be saved each year?
5. What kind of employees would be most likely to benefit from their employer subsidising a local bus service?
6. What kind of employers would be most likely to choose to subsidise local buses? Why?
7. Are there circumstances in which such an exemption would be regarded as unfair?

Please send comments by 31st December 2001 to
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