

- 10.1 Dispensations
- 10.3 Getting a dispensation
- 10.6 What a dispensation can cover
- 10.10 PAYE Settlement Agreements (PSAs)

**Dispensations**

- 10.1 A dispensation can save employers and employees time and effort reporting details of travel expenses and benefits on which no tax is ultimately payable.
- 10.2 A dispensation is, in effect, a notice of nil liability. A dispensation should **never** cover an item for which there would not be a matching income tax deduction. Where a dispensation is in force, it applies both for tax and National Insurance purposes.

It means that the employer:

- does not have to report to us expenses/benefits that are covered by the dispensation
- does not have to provide employees with details of the expenses/benefits they receive which are covered by the dispensation (although it may reduce queries if the employer tells employees about dispensations which apply to them)
- does not have to include, for Class 1 NICs purposes, the expenses payments in the employees' gross pay
- does not have to pay Class 1A NICs on any benefits included in the dispensation.

If employers are in doubt at any time, they should ask their PAYE office for advice.

**Getting a dispensation**

- 10.3 Before a dispensation can be issued the officer of HMRC has to know the kind of expenses paid, how they are identified in the employer's accounting system and who is authorised to approve reimbursement.

The officer of HMRC will have to be satisfied that:

- no tax is payable in respect of the expenses payments and benefits covered by the dispensation, and
- the employer operates control systems adequate to ensure that expenses payments and benefits remain within the terms of the dispensation.

- 10.4 When the officer of HMRC agrees a dispensation, he or she will record:
- the nature and scale of the expenses payments and benefits it covers
  - the circumstances in which they will be covered by the dispensation, and
  - the employees covered (or not covered) by the dispensation.

- 10.5 Further information on applying for a dispensation, and an application form *P11D(X)*, is available at [www.hmrc.gov.uk/forms/p11dx.pdf](http://www.hmrc.gov.uk/forms/p11dx.pdf)

**What a dispensation can cover**

- 10.6 A dispensation can cover any travel expenses and benefits for which there is a matching tax deduction. The officer of HMRC has to be satisfied that travel expenses and benefits covered by a dispensation are calculated and paid on the basis that they are clearly intended to do no more than reimburse employees for expenses actually incurred in making genuine business journeys.

- 10.7 The sort of items which are commonly included in dispensations are:
- air and rail tickets provided for business travel
  - payments for subsistence while on business travel
  - hotel bills paid directly by the employer.
- 10.8 A dispensation cannot be given for fuel, a company car or business mileage payments for travel in employees own vehicles.
- 10.9 An employer applying for a dispensation will need to be able to show that travel expenses payments (less any amount made good by the employee) relate only to genuine business journeys for which full tax relief is due (see paragraphs 2.2 and 2.5 to 2.7), and do not exceed the cost of that travel.

The arrangements for recording and paying expenses would, therefore, normally need to show:

- the purpose of the business journey
- details of each business journey, and
- the amount paid or reimbursed for the journey.

#### **PAYE Settlement Agreements (PSAs)**

- 10.10 Under the terms of a PSA an employer can agree with the Inspector to settle in a single annual payment the income tax liability on certain expenses and benefits provided to employees. Payments which are covered by a PSA do not have to be reported on form *P11D*. Nor does the employer have to provide details to the employee (although it may reduce queries if the employer tells employees about items which apply to them).
- 10.11 In order to be included in a PSA, expenses and benefits have to be of a minor or irregular nature. So expenses of regular business travel would not generally be within the scope of a PSA, unless for relatively small amounts. A round sum allowance for business travel is also outside the scope of a PSA. But a PSA can be used to cover expenses payments made to employees who make occasional business journeys, even if the amounts involved are substantial.
- 10.12 Further information about PSAs is available at [www.hmrc.gov.uk/employers](http://www.hmrc.gov.uk/employers)