The basic principle of expenses is to reimburse costs incurred by employees (PAs) so they are not out of pocket for doing their job. If an expense is excessive or not directly related to their job then in reality it is just “extra pay” and is therefore subject the normal PAYE tax and National Insurance payments.

The guiding principle when dealing with payment of expenses is that the payments should only reimburse costs incurred by an employee in the performance of their duties of employment. This means that reimbursement will generally not be taxable as long as the employee does not profit.

It is the employer’s responsibility to determine that an expense is incurred in the performance of a person’s role and this normally means that the expense is one that anybody doing that job would incur.

In order to be clear and transparent for HMRC and Direct Payment purposes, expenses should not be reimbursed in cash; they should be paid via payroll as a non-taxable expense.

**Travel costs** are a good example of an employee expense that meets the principles above.

***Important note****: performance of duties of the employment does not included travel to and from an employee’s usual place of work, i.e. commuting. The cost of travel to their place of work is the employee’s responsibility.*

When a PA carries out a task for their employer which requires them to travel using their own vehicle, that employee can be reimbursed the cost of motoring because the travel is related to the performance of their duties. Examples include the PA using their own vehicle to attend a training course, taking their employer to an appointment, carrying out an errand, etc. In these instances, the PA can be reimbursed using the HMRC authorised “Mileage Allowance Payments” (MAPs) rates without tax being due; these rates are used because the employee cannot provide a receipt for the actual cost incurred (see note 1 below).

The same principle applies if the employee didn’t drive but used a taxi / public transport to carry out the travel. On production of a receipt to the employer, the employee can be reimbursed the actual cost they have incurred without tax being due.

Note 1: HMRC Mileage Allowance Payment rates can be found on the Gov.uk website: <https://www.gov.uk/expenses-and-benefits-business-travel-mileage/rules-for-tax>. The rates are calculated to cover costs relating to fuel, insurance, roadside recovery, wear and tear of the vehicle, depreciation, etc.

* You can choose to pay your employee more than the authorised rate, however the employee is liable to pay tax on the difference, because HMRC consider the employee to then be profiting from that higher mileage amount (regardless of actual cost). This tax must be deducted via payroll.
* You can choose to pay your employee less than the authorised rate however the employee could be losing out in this arrangement and can claim tax back via HMRC.

***Guidance*** *- pay your employees the HMRC authorised mileage rate and process these payment via your payroll as a non-taxable expense using an expense form specifically for this purpose. If you are reimbursing an employee for receipted travel, ensure you retain the receipt for 4 years in case HMRC want to review this.*

**Subsistence** is the generic term for living costs such as meals and accommodation usually linked to a travel event. It is considered a non-taxable expense when an employee incurs such additional costs in the performance of their duties.

Usually, direct payment users will pay costs relating to subsistence directly to the provider (of accommodation / meals) because the PA tends to travel with them, e.g. accompanying their employer when they are travelling away from home. In such cases, as long as there is no profit element to the employee as described above, there are no tax or NIC implications.

If costs are incurred directly by the employee, e.g. they attend a training course and stay overnight and the employer is not paying the bill directly, the employee can be reimbursed the cost of accommodation and meals.

* **Accommodation costs** – there are no hard and fast rules around amounts you can pay for your employees accommodation, however you should consider what you believe to be reasonable, given the cost of the accommodation will come from your direct payment. The PA will need to obtain a receipt to evidence the spend.
* **Meals, etc.** – you can reimburse the actual cost incurred as long as they are not excessive and are evidenced by receipts. HMRC issue a list of payment rates for different types of meals which you could use to help you determine a reasonable amount for your PA to spend on meals, although you may need to revise this upwards, dependent upon the local area.

PAs must provide receipts for costs incurred because direct payment users are required to evidence how the direct payment has been used (therefore you cannot use HMRC scale rates themselves – only as a guide to reasonable costs)

***Guidance*** *– give your employee guidelines on the amount they can spend in relation to these expenses and explain they will be reimbursed on production of receipts / invoices for the cost.*

* *Holding Account users: costs can be reimbursed as non-taxable expenses via your managed account and payroll provider. You may need to provide receipts when you send the payment request to your provider*
* *Self-managed direct payment users: you can choose to reimburse the cost as a non-taxable expense via your payroll or, reimburse the expense from your direct payment account.*

***Receipts****: ensure you / managed account provider retains any receipts for 4 years in case HMRC want to review this. If you have not reimbursed costs via payroll, you will need the receipts to evidence the direct payment spend.*

**Live-in care** is the term used to describe an arrangement where a care worker is employed to provide the care and support necessary to keep a person safe and well in their own home and the carer is provided with board and lodgings and associated facilities such as heating and lighting, laundry, cooking facilities, meals, etc. enabling them to live in the same house as part of the employment arrangement. Since the carer is required to live in the same house as the cared for person as part of the employment arrangement, the provision of this board and lodging is considered to be non-taxable and nothing needs to be reported to HMRC.

Looking specifically at meal arrangements for live-in carers, these are usually organised in one of the following two ways:

1. The provision of meals is included as part of the live-in arrangement with the family providing the PA healthy and nutritious meals from their own family budget. The PA continues to purchase any food they consume outside of the family mealtimes and use the employer’s facilities as & when they need to.
2. The PA makes their own arrangement for meals - purchasing their own food and using the employer’s kitchen and cooking facilities to prepare and cook for themselves, which are eaten when they are not performing their employment duties.

As an employer you are **not** responsible for purchasing the PA’s food or for making any contribution towards this. If you do agree to make any such payments in relation to this that payment **must** form part of the PA’s pay and be subject to tax and NIC via the payroll. Under no circumstances should any cash in hand payment be made.

*This same rule applies if you are contracting with an agency for live-in care – you should not agree to pay any carer cash in lieu of meals: any specialised arrangement should be between the agency and their carer. You will pay the agreed cost of care to the agency via an invoice and they should manage all payments to their carer.*

**Incidental expenses:** there may be occasions where you ask your PA to purchase something on your behalf. You may repay the PA the actual receipted cost based either from your own pocket, which you then claim back via the direct payment account, or via payroll as a non-taxable expense.

**Other costs**: if you are unsure about how to deal with an expense not specifically mentioned above, and that expense is going to be repaid to the employee from your direct payment, then seek advice from the **Direct Payment Helpline Tell: 01908 363428** in the first instance.

**The bottom line is that the employee should not be out of pocket or benefitting from the payment of expenses. Additionally, the direct payment user should remember that it is the funding for their care and support that is being used to pay expenses, so reimbursements should be at a reasonable level.**

**Gift giving:** generally speaking, your PAs expenses will be incurred as part of their employment duties and they will be reimbursed from your direct payment as a legitimate expense of the PA employment in relation to your care & support. However, given the nature of their role, it is likely that you will develop a good relationship with your employee and consider it reasonable for example to: loan your (employer’s) car for a personal reason, or give them a hamper at Christmas or pay for an occasional private expense like a trip to the cinema. Because your relationship with your PA is that of employer and employee, HMRC will consider this to be provision of benefits in kind and if that gift is not exempt from tax, these benefits are taxable and subject to Class 1A employer National Insurance contributions. That means you should declare the value of the gift via payroll so it is subject to PAYE and National Insurance in the usual way.

* <https://www.gov.uk/au-pairs-employment-law/au-pairs> - Au pairs usually live with the family they work for and are unlikely to be classed as a worker or an employee. They aren’t entitled to the National Minimum Wage or paid holidays. They’re treated as a member of the family they live with and get ‘pocket money’ instead - usually about £70 to £85 a week.
* <https://www.gov.uk/au-pairs-employment-law/nannies> Anyone who works in a private home is treated as an [employee](https://www.gov.uk/employment-status/employee) if they only work for one family. This includes nannies, housekeepers, gardeners, a personal assistant helping you with [care and support](https://www.gov.uk/help-care-support) and anyone else working for one family or person.
* <https://www.gov.uk/national-minimum-wage-accommodation> Accommodation provided by an employer can be taken into account when calculating the minimum wage. “Accommodation” is not the same as ‘board and lodgings’ and includes costs for: rent, gas, electricity, furniture, etc. and laundry. For National Minimum Wage purposes, the offset rate for accommodation charges is £5.08 a day or £35.56 a week; if the accommodation is free, the offset rate is added to the worker’s pay to work out what their pay is in relation to NMW. No other kind of benefit (e.g. food, a car, childcare vouchers) counts towards the minimum wage.