

EXPLANATORY NOTE

**CLAUSE 15: CHILDCARE VOUCHERS: EXEMPT
AMOUNT**

SUMMARY

1. Clause 15 introduces a tax exemption from the benefit-in-kind charge arising on the cost of administering childcare voucher schemes.

DETAILS OF THE CLAUSE

2. Subsection 1 is introductory and provides for amendments to be made to Section 270A of the Income Tax (Earnings and Pensions) Act 2003 as amended by Schedule 13 of the Finance Act (FA) 2004 (Childcare vouchers).
3. Subsection 2 amends Section 270A to widen the exemption from tax of £50 a week in total to £50 a week of childcare vouchers plus associated administration costs.
4. Subsection 3 inserts a definition of voucher administration costs and the face value of a voucher.
5. Subsection 4 provides the meaning of the cost of provision of a childcare voucher.
6. Subsection 5 provides that the amendments have effect from 6 April 2005.

BACKGROUND NOTES

7. The tax treatment of employer-provided childcare and childcare vouchers was reformed in Finance Act 2004. A new exemption on the first £50 a week of childcare and childcare vouchers was introduced with effect from 6 April 2005.

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8. This clause extends the exempt limit so the £50 limit applies to the full face value rather than the cost of providing a childcare voucher (which would normally include an administration fee).

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**CLAUSE 16: EXTENSION OF EXEMPTIONS FOR
CHILDCARE, WORKPLACE PARKING, CYCLES ETC.**

SUMMARY

1. Clause 16 introduces an exemption from a tax charge on general earnings for childcare vouchers and certain other benefits-in-kind.

DETAILS OF THE CLAUSE

2. Subsection 1 is introductory only and provides for the amendment of the Income Tax (Earnings and Pensions) Act 2003.
3. Subsection 2 amends Section 237 relating to the provision of workplace parking in order to prevent a tax charge on general earnings arising in certain circumstances.
4. Subsection 3 amends Section 244 relating to the provision of cycles and cyclist's safety equipment in order to prevent a tax charge on general earnings arising in certain circumstances.
5. Subsection 4 amends Section 270A relating to the provision of childcare vouchers in order to prevent a tax charge on general earnings arising in certain circumstances.
6. Subsection 5 amends Section 318 relating to the direct provision of child care in order to prevent a tax charge on general earnings arising in certain circumstances.
7. Subsection 6 amends Section 318A relating to the provision of child care from a third party in order to prevent a tax charge on general earnings arising in certain circumstances.
8. Subsection 7 provides that the amendments have effect from 6 April 2005.

BACKGROUND NOTES

9. The tax treatment of employer-provided childcare and childcare vouchers was reformed in Finance Act 2004. A new exemption on the first £50 per week of childcare and childcare vouchers was introduced with effect from 6 April 2005.

10. This clause ensures that a tax charge on general earnings cannot arise on childcare and certain other benefits, where the benefit can be converted to cash (this is normally when the benefit is provided under a salary sacrifice arrangement or cash is offered as an alternative).

EXPLANATORY NOTE

**CLAUSE 17: EMPLOYEE BENEFITS: TRANSFER OF
PREVIOUSLY LOANED COMPUTER OR CYCLE ETC.**

SUMMARY

1. Clause 17 provides that no tax will be due when ownership of a previously loaned computer or bicycle that has been provided as a benefit in kind is transferred to an employee at market value.

DETAILS OF THE CLAUSE

2. Subsection (1) is introductory and provides for an amendment to section 206 of Income Tax (Earnings and Pensions) Act 2003 (ITEPA) which deals with the cost of the benefit arising on the transfer of a used or depreciated asset.
3. Subsection (2) substitutes for the current exemption for cars at section 206(3)(a) ITEPA 2003 a broader category of excluded asset. It also refers to a new subsection inserted by paragraph 3, which defines what an excluded asset means in the context of section 206(3)(a) ITEPA.
4. Subsection (3) adds a new subsection (6) to section 206 ITEPA, which defines what an excluded asset is for the purposes of section 206 (3)(a). It also refers to the sections of ITEPA, which set out the conditions under which the cycle or computer must have been loaned in order for it to be excluded from a charge under section 203 ITEPA on transfer of ownership to the employee.
5. Subsection (4) provides that the new rules will take effect from 6 April 2005.

BACKGROUND NOTE

6. Currently where a computer or cycle is loaned to an employee as a benefit in kind and at the end of the loan period ownership transfers to the employee, the employer has to calculate the cost of the benefit in kind that arises from the transfer of the asset. The cost is the higher of the current market value and the value of the asset when it was first loaned less the total cost of the benefit throughout the loan period. To prevent a charge to income tax when ownership transfers, the employee must pay the higher value for the computer or cycle.
7. To calculate the cost of the benefit in kind when ownership transfers the employer will need to keep records of the value of the asset when first provided and of the cost of the benefit for each year the computer or cycle is on loan.
8. The clause will help reduce the administrative burden for employers when ownership of a computer or cycle that has been loaned as a benefit in kind transfers to an employee. It provides certainty that when market value is paid by the employee no charge to income tax arises on the transfer of the asset.
9. Simplifying the calculation of the benefit cost helps achieve the outcome originally envisaged for the Home Computer Initiative: to contribute to realising the potential of the workforce and of organisations by employers making computers available for home use to as many employees as possible.
10. The clause also supports the Government's environmental objectives by introducing a similar simplification for cycles.
11. An example of how the clause will simplify administration for employers follows:

An employer lends a new computer worth £1,000 to an employee for 3 years. At the end of that period, the market value of the computer is £200; the employer sells the equipment to an employee for £200.

The cost of the benefit is currently calculated as the higher of the market value at the date of transfer or the original market value less the aggregate cost of the benefit for the period of the loan as follows:

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Original market value	£1,000
Less	£ 600 (£200* x 3 years)

*£200 being the 20% charge each year on the market value when the computer was first loaned (s.206 (3) ITEPA). The £200 annual benefit is exempt under section 320 ITEPA 2003, but for the purposes of this calculation the notional cost of the benefit must be included.

Cost of the benefit	£ 400
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Thus the original market value less the aggregate cost of the benefit is £200 higher than the market value on transfer. So if the employee had paid market value they would also have had a tax charge under Section 203 ITEPA on £200, which is the difference between the amount he paid for it (market value) and the cost of the benefit calculated in accordance with section 206(3) ITEPA.

The new clause will mean that the cost of the benefit will always be market value at the time ownership of the computer or cycle transfers. Providing the employee pays market value to their employer at that time no charge to income tax will arise on the transfer of ownership.

EXPLANATORY NOTE

**CLAUSE 18: EXTENSION OF OUTPLACEMENT
SERVICES ETC EXEMPTION: PART-TIME EMPLOYEES**

SUMMARY

1. Clause 18 extends the present tax exemption for out placement counselling services and qualifying retraining course expenses paid for as part of a redundancy package to cover part time employees. It also extends the duration of a qualifying re-training course from one to two years and removes the requirement that the employee has to attend the course on a full-time or substantially full-time basis.

DETAILS OF THE CLAUSE

2. Subsection (1) is introductory and provides for an amendment to sections 310 and 311 of Income Tax Earnings Pensions Act 2003 (ITEPA) which deals with the provision of outplacement counselling and retraining exemptions to employees as part of a redundancy package.
3. Subsection (2) extends the current exemption for counselling and other outplacement services to include part-time employees by omitting the words "full-time" from section 310(4) ITEPA 2003.
4. Subsection (3) alters the conditions in s311(3)(c) ITEPA 2003 under which a retraining course is covered by the exemption to allow it to be of a duration of up to two years. It also removes the condition at s311(3)(d) ITEPA 2003 that the employee has to attend the course on a full time or substantially full time basis.
5. Subsection (4) extends the current exemption for qualifying re-training courses to include part-time employees by omitting the words "full-time" in section 311(4)(c) ITEPA 2003.

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6. Subsection (5) provides that the new rules take effect from 6 April 2005.

BACKGROUND NOTES

7. Currently sections 310 and 311 ITEPA 2003 allow an employer to provide outplacement counselling and retraining courses as part of a redundancy package for employees who lose their jobs without incurring a tax charge.
8. One of the conditions for allowing this exemption is that the employee works full time, and in the case of the retraining course the employee attends it on a full-time or substantially full-time basis.
9. By making these changes part-time employees will be able to enjoy the same exemption as full-time employees.

EXPLANATORY NOTE

**CLAUSE 19: ARMED FORCES PENSIONS AND
COMPENSATION SCHEMES**

SUMMARY

1. Clause 19 amends the Income Tax (Earnings and Pensions) Act 2003. It provides that the new armed and reserve forces compensation scheme is outside the scope of the Chapter dealing with payments made by approved retirement benefits schemes that are charged to tax as pension income. It specifies the payments which the Ministry of Defence can make tax-free in respect of pensions and allowances relating to death due to service, war time service in the merchant navy or war injuries. It also exempts from tax lump sums payable under the new early departure payments scheme and injury awards payable as periodic payments and lump sums under the new armed and reserve forces compensation scheme.

DETAILS OF THE CLAUSE

2. Subsection (1) provides for the amendment of the Income Tax (Earnings and Pensions) Act 2003.
3. Subsection (2) provides that an armed and reserve forces compensation scheme is outside the scope of Chapter 2, Part 6 of the Act (benefits from non-approved pension schemes).
4. Subsection (3) provides that no income tax liability arises on pensions or allowances relating to death due to service, wartime service in the merchant navy or war injuries paid by the Ministry of Defence under the instruments specified in subsection (4).
5. Subsection (4) specifies the instruments referred to in subsection (3) and provides an order-making power to amend the list.

6. Subsection (5) introduces a new section to provide that no income tax liability arises on lump sums provided under an early departure payments scheme.
7. Subsection (6) provides an exemption from income tax in relation to illness or injury benefits under an armed and reserve forces compensation scheme.
8. Subsections (7), (8) and (9) concern the commencement provisions for subsections (2), (3) and (4) and (5) and (6).

BACKGROUND NOTES

9. Clause 19 will ensure that recipients of benefits payable under new armed forces pension, compensation and early departure schemes operational from 6 April 2005 will be in the same tax position as those receiving pension and attributable benefits under the existing armed forces pension scheme. It also exempts from a charge to income tax lump sum in-service benefits payable under the compensation scheme.