



Tax exemption for employer expenditure on recommended medical treatment

Who is likely to be affected?

Employers and employees where the employer pays for recommended medical treatment.

General description of the measure

The measure will exempt from a charge to income tax any benefit in kind or payment of earnings, up to an annual cap of £500 per employee, when an employer meets the cost of recommended medical treatment. Medical treatment will be 'recommended' where it is provided in accordance with a recommendation from an occupational health service in order to help an employee return to work after a period of absence due to ill-health or injury.

There will be a corresponding National Insurance contributions (NICs) disregard.

Policy objective

The Government believes that more can be done to support employees to return to work. Together with the introduction of the Government's new service, to be known as the Health and Work Service, this measure will support the Government's aims to widen access to occupational health treatment and to encourage employers to engage with the well-being of their employees.

Background to the measure

This measure was announced at Budget 2013. An informal consultation entitled *Implementation of a tax exemption for employer expenditure on health-related interventions recommended by the new health and work assessment and advisory service* was published on 21 June 2013 and the consultation closed on 16 August 2013.

The Government's response *Consultation on a tax exemption for employer expenditure on health-related interventions: Summary of Responses* was published on GOV.UK on 10 December 2013.

Detailed proposal

Operative date

This measure is expected to have effect in autumn 2014 on a date set out in a Treasury Order.

Current law

Expenditure by employers on medical treatment for employees is generally chargeable to income tax either as a payment of earnings under section 62 Income Tax (Earnings and Pensions) Act 2003 (ITEPA) or as a taxable benefit under Chapter 10 of Part 3 of that Act.

The Social Security Contributions and Benefits Act 1992 imposes a Class 1 NICs liability on employees and employers in respect of payments of earnings and a Class 1A NICs liability on employers for benefits in kind.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend Part 4 of ITEPA to exempt from a charge to income tax the provision of recommended medical treatment to an employee or the payment or reimbursement of the costs of such treatment. The exemption will be subject to an annual cap of £500 per employee. The medical treatment must be recommended by either the new Health and Work Service or, alternatively, an occupational health service provided or arranged by an employer, for the purposes of helping an employee return to work after a period of absence due to injury or ill-health. Further requirements will be set out in Treasury Regulations and these are likely to include a minimum number of consecutive days that the employee must have been certified as unfit for work, the manner of the certification and who can provide it.

Finance Bill 2014 will also amend section 266 ITEPA to exempt the use of non-cash vouchers for the provision of recommended medical treatment from any charge to income tax.

Following Royal Assent to Finance Bill 2014, amendment will be made to the Social Security (Contributions) Regulations 2001 to ensure that any payment of earnings exempted from a charge to income tax under these new provisions will also be disregarded for NICs purposes.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	-	+10	+10	+10	+15
	These figures were set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2013. The tax exemption has since been extended.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	The tax exemption will benefit employees who receive employer funded medical treatment that has been recommended by either the new Health and Work Service or a private occupational health service. On treatment valued at £200 a basic rate taxpayer would save £40, a higher rate taxpayer £80 and an additional rate taxpayer £90. It will not increase or affect their administration burden.				
Equalities impacts	This measure is not expected to have any impacts on people with protected characteristics.				
Impact on business including civil society organisations	This measure will reduce the administrative burden for businesses and civil society organisations that pay for recommended medical treatment for their employees. Approximately 10,000 businesses each year are expected to benefit from these changes. Ongoing savings for employers will arise as they will not need to report the relevant benefits as taxable benefits on P11D forms. There will be negligible one-off costs associated with familiarisation with new legislation				

		Cost	Time Period (yrs)
	Compliance Costs		
	One-off Costs	Negligible	N/A
	Average Annual Costs	N/A	N/A
	Total Costs (PV)	N/A	N/A
	Compliance Benefits		
	One-off Benefit	N/A	N/A
	Average Annual Benefit	£1.3m	5
	Total Benefit (PV)	£6.2m	N/A
	Net Benefit (NPV)	£6.2m	N/A
	Impact on Administrative Burden (included in Net Benefit)		
	Increase	Decrease	Net Impact
	£0m	£1.3m	-£1.3m
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional significant costs nor reap any significant savings for HM Revenue & Customs.		
Other impacts	<u>Small and micro business assessment:</u> the impact of this measure on small and micro businesses is expected to be negligible. Other impacts have been considered and none have been identified.		

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact the Employment Income Policy Team at: employmentincome.policy@hmrc.gsi.gov.uk.

1 Recommended medical treatment

- (1) Part 4 of ITEPA 2003 (exemptions) is amended as follows.
- (2) In Chapter 11 (miscellaneous exemptions), after section 320B insert –

“Recommended medical treatment

320C Recommended medical treatment

- (1) No liability to income tax arises in respect of –
 - (a) the provision to an employee of recommended medical treatment, or
 - (b) the payment or reimbursement, to or in respect of an employee, of the cost of such treatment,
 if that provision, payment or reimbursement is not pursuant to relevant salary sacrifice arrangements or relevant flexible remuneration arrangements.
- (2) But subsection (1) does not apply in a tax year if, and to the extent that, the value of the exemption in that year exceeds £500.
- (3) Medical treatment is “recommended” if it is provided to the employee in accordance with a recommendation which –
 - (a) is made to the employee as part of occupational health services provided to the employee by a service provided –
 - (i) under an enactment, or
 - (ii) by, or in accordance with arrangements made by, the employer,
 - (b) is made for the purpose of assisting the employee to return to work after a period of absence due to injury or ill health, and
 - (c) meets any other requirements specified in regulations made by the Treasury.
- (4) Regulations under subsection (3)(c) may, in particular, specify that the recommendation must be one given after the employee has been certified as unfit for work –
 - (a) for at least the specified number of consecutive days, and
 - (b) in the specified manner by a person of a specified description.
- (5) “The value of the exemption”, in a tax year, is an amount equal to the sum of –
 - (a) all earnings within section 62 (earnings), and
 - (b) all earnings which are treated as such under the benefits code, in respect of which subsection (1) would prevent liability to income tax from arising in the tax year disregarding subsection (2).
- (6) In this section –

“medical treatment” means all procedures for diagnosing or treating any physical or mental illness, infirmity or defect;

“relevant salary sacrifice arrangements” means arrangements (whenever made, whether before or after the employment began) under which the employee gives up the right to receive an amount of general earnings or specific employment income

in return for the provision of recommended medical treatment or the payment or reimbursement of the cost of such treatment; “relevant flexible remuneration arrangements” means arrangements (whenever made, whether before or after the employment began) under which the employee and employer agree that the employee is to be provided with recommended medical treatment or the cost of such treatment is to be paid or reimbursed, rather than the employee receiving some other description of employment income; “specified” means specified in regulations under subsection (3)(c).”

- (3) In section 266 (exemption of non-cash vouchers for exempt benefits), in subsection (1), omit the “or” at the end of paragraph (d) and after paragraph (e) insert “, or
(f) section 320C (recommended medical treatment);”.
- (4) The amendments made by this section have effect in accordance with provision contained in an order made by the Treasury.

EXPLANATORY NOTE

RECOMMENDED MEDICAL TREATMENT

SUMMARY

1. Clause [X] provides for a new exemption from income tax where an employer meets the cost of recommended medical treatment provided to an employee to assist them to return to work after a period of absence due to ill-health or injury, subject to an annual cap of £500.

DETAILS OF THE CLAUSE

2. Subsection 1 amends Part 4 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) (exemptions).

3. Subsection 2 inserts a new section 320C into Chapter 11 (miscellaneous exemptions).

4. New subsection 320C(1) provides that no liability to income tax arises where an employer either provides recommended medical treatment to an employee or pays or reimburses the costs of such treatment as long as the provision, payment or reimbursement is not subject to salary sacrifice or flexible remuneration arrangements.

5. New subsection 320C(2) limits the value of the exemption in a tax year to £500.

6. New subsection 320C(3) sets out at paragraphs (a) (b) and (c) the cumulative conditions under which medical treatment provided to the employee is “recommended”. Paragraph (a) provides that a recommendation is made to an employee as part of occupational health services provided to the employee by a service provided under an enactment, or by, or in accordance with arrangements made by, the employer. Paragraph (b) provides that treatment is for the purposes of assisting an employee to return to work after an absence due to injury or ill health, and paragraph (c) provides the Treasury with a power to set out other requirements in regulations.

7. New subsection 320C(4) provides at paragraphs (a) and (b) that regulations under new subsection 320C(3)(c) may specify that the recommendation must be given after the employee has been certified as unfit for work for at least a minimum number of consecutive days, and in a manner, and by a person, specified in regulations.

8. New subsection 320C(5) clarifies that the value of the exemption in a tax year is an amount equal to the sum of all payments that are classed as earnings under section 62 ITEPA and all benefits that are treated as earnings under the benefits code that would be exempt from liability to income tax under new subsection 320C(1) if the £500 limit at new subsection 320C(2) did not apply.

9. New subsection 320C(6) provides definitions of terms used within new section 320C.
10. Subsection (3) amends section 266 ITEPA by adding to the list of non-cash vouchers that do not give rise to tax liability under Chapter 4 of Part 3 of ITEPA a new paragraph (f) covering medical treatment that meets the requirements of new section 320C. The effect of this is to remove the tax charge that would otherwise arise when the employer arranges for the provision of this form of medical treatment by means of non-cash vouchers.
11. Subsection (4) provides that the amendments made by new section 320C will come into effect from a date set out in a Treasury Order.

BACKGROUND NOTE

12. Under current legislation an employer who arranges and pays for medical treatment for an employee is generally providing a benefit in kind that is treated as earnings and is liable to income tax. Where an employer either pays for medical treatment arranged by an employee or reimburses an employee for the costs of such treatment, this constitutes a payment of earnings and is also subject to income tax.
13. This legislation will provide an exemption from a charge to income tax for any payment by an employer to meet the costs of medical treatment that has been recommended by occupational health services up to a limit of £500 per employee per year. This will support the Government's aim to widen access to occupational health treatment and to encourage employers to engage with the wellbeing of their employees.
14. If you have any questions about this change, or comments on the legislation, please email: employmentincome.policy@hmrc.gsi.gov.uk.