

Briefing Note - the taxation of Members' Allowances

The option to pay an allowance to Members to cover the cost of providing their own hardware and support gives rise to a taxable benefit under current regulations, in the same way that the basic allowance is treated as taxable earnings. However, in the same way that the basic allowance can be offset by expenses to reduce or eliminate tax exposure, expenses incurred in purchasing equipment, support and consumables in carrying out the duties of a district councillor can also be claimed.

Central government has provided general guidance on the taxation of members' allowances which can be found at the following link:

<http://www.hmrc.gov.uk/manuals/eimanual/EIM65970.htm>

This guidance covers

- the relevant tax rules
- which allowances are taxable
- the treatment of expenses incurred by a member carrying out approved duties which are reimbursed by the authority
- what tax relief is available for expenses that the authority does not reimburse.

It may be possible for the authority to be granted a dispensation to avoid having to treat the allowances as a taxable payment. Where an allowance is clearly intended to do no more than reimburse expenses actually incurred in carrying out the councillor's duties, and the expense was incurred only because of the office, HMRC may be prepared to authorise payment of the allowance without deducting tax. Before doing this, they will need to be satisfied, however, that the allowance is at a reasonable scale and is clearly intended to do no more than reimburse expenses actually incurred. This would mean that no private use of the equipment would be allowed

Should the option to provide a laptop be chosen then a dispensation would also be required to prevent the supply of equipment being taxed, as tax rules on the supply of computer equipment changed in 2006. Any application for a dispensation would be dealt with by the Payroll Manager on behalf of the authority, rather than individual members.