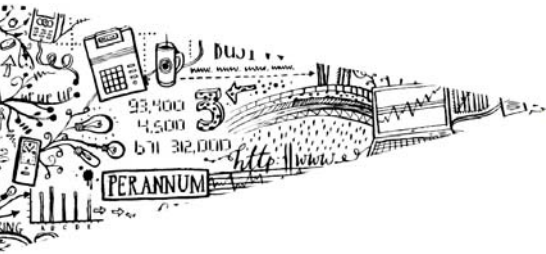


# Tax alert

## Ireland

Issue 05/09



## New travel and subsistence rates to force employer expense rethink

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The Department of Finance recently announced a 25% reduction in the flat rate travel and subsistence allowances payable to civil servants. This reduction is effective from 5 March 2009. As many employers reimburse employees for work related travel and subsistence costs on a tax free basis using the round sum rates in the Civil Service scales, the reduced rates could have an impact on private sector employers and employees.

### Impact of the Change:

The Revenue Commissioners take the view that employers can generally only pay tax free flat rate expenses at levels not exceeding the Civil Service rates. If this view is correct, any flat rate expenses that are paid post 5 March 2009, and which exceed the new rates, will be taxable. This will affect all employers who have been paying flat rate expenses based on the old scales.

### Civil Service Mileage Rates

From 5 March 2009 the Civil Service rates (per kilometre) for employees who are obliged to use their own cars while on business are as follows:

Official Motor Travel in a calendar year	Engine Capacity: Up to 1,200 cc	Engine Capacity: 1,201 cc to 1,500 cc	Engine Capacity: 1,501 cc and over
Up to 6,437km	39.12 cent	46.25 cent	59.07 cent
6,438km and over	21.22 cent	23.62 cent	28.46 cent

### Civil Service Subsistence Rates

From 5 March 2009 the Civil Service domestic subsistence rates for employees on business are as follows:

	Overnight Allowances			Day Allowances	
	Normal Rate	Reduced Rate	Detention Rate	10 hours or more	5 hours but less than 10 hours
<b>Class A</b>	€108.99	€100.48	€54.48	€33.61	€13.71
<b>Class B</b>	€107.69	€92.11	€53.87	€33.61	€13.71

The rate of allowance depends on the grade of the civil servant and a corresponding limit applies to the private sector. Generally speaking, an employee on an annual salary exceeding €69,659 may be paid up to the Class A rate and an employee on an annual salary less than that qualifies for a Class B allowance.

### **Action Required by Employers**

There is no obligation on employers to pay flat rate expenses based on any Civil Service scale. It is open to any employer who wishes to do so, to reimburse expenses based solely on actual vouched expenses incurred.

However, from 5 March 2009, employers that reimburse expenses on the basis of the Civil Service scales have a number of options open to them. These include;

- a. Reducing the rates payable in line with the new Civil Service limits.
- b. Continuing to pay the existing (pre 5 March 2009) rates, but applying PAYE/PRSI to any amount in excess of the revised Civil Service scales.
- c. If the actual costs incurred are greater than what is permissible by reference to the Civil Service scales, seeking to agree a scale rate with the Revenue based on average (actual) costs incurred.

Both options (a) and (b) will result in a reduction in the net level of reimbursement that employees will receive into their hands. Such reductions may cause human relations issues and will need to be handled carefully. Option (b) will result in higher costs, since employer PRSI contributions would be payable on any payments over and above the relevant Civil Service rates.

Option (c) would reflect the stance that rates higher than those outlined in the Civil Service scales can be objectively justified by reference to the average costs that are typically incurred. It should be borne in mind that the reduction arises primarily from the Government's public sector cost-cutting exercise, rather than from a 25% reduction in actual travel and subsistence costs since February. However, any employer that decides to maintain existing levels of reimbursements should be prepared to defend the rates in the event they are challenged during a Revenue audit.

Travel and subsistence rates are intended to do no more than reimburse employees for the costs likely to have been incurred. It is perhaps arguable that having regard to recent reductions in the cost of fuel in particular, some level of reduction in mileage rates is warranted. On that basis, some reduction in expense rates may be seen as appropriate in the context of an overall cost reduction exercise.

Given that the new travel and subsistence scales apply from 5 March 2009, affected employers should immediately consider their positions with a view to minimising any potential exposure to PAYE/PRSI and interest and penalties thereon.

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