

# **GUIDE TO TAXATION TREATMENT OF NAECI ALLOWANCES**

**July 2022**

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## 1. INTRODUCTION

The following guidance is based wherever possible on arrangements which have been formally agreed between the National Joint Council for the Engineering Construction Industry (NJCECI) or the Engineering Construction Industry Association (ECIA) and the Personal Tax Division of the HM Revenue & Customs. The arrangements with HM Revenue & Customs relating to travelling and accommodation allowances have arisen because of the high degree of mobility required of employees working in the Engineering Construction Industry.

The modified taxation procedures for travelling and accommodation allowances are agreed nationally between the NJC and HM Revenue & Customs. They apply only where both the employer and the employee adopt the full terms and conditions of the NAECI. Outside the framework of the NAECI, employers are required to apply the statutory rules under Sections 336 onwards of the Income Tax (Earnings and Pensions) Act 2003 to these allowances, unless they have specific authority from HM Revenue & Customs not to do so. Employers paying these allowances must do so under either the NAECI or the statutory rules, but not both at the same time, and any changeover from one to the other should be discussed with HM Revenue & Customs.

This guide brings together in one document the information and authorities which have accumulated over time and is published with the approval of HM Revenue & Customs. However, it is not itself an authority, and, if in any doubt about a taxation matter, in-scope employers and their employees should consult their local office of HM Revenue & Customs for a ruling on their particular circumstances. Should that local ruling appear to conflict with the information in this Guide, the NJC, the ECIA or the local office of HM Revenue & Customs will, where appropriate, take the matter up with HM Revenue & Customs at:

HM Revenue & Customs  
Individuals Policy Directorate  
S1013  
PO Box 192  
BOOTLE  
L69 9ZW

Note: This address is NOT for use by members of the public

2. SUMMARY OF ALLOWANCES UNDER THE NAECI AND WHETHER PRESENTLY TAXABLE OR NOT

<b>Allowance</b>	<b>Section of NAECI (2022-2023)</b>	<b>Taxable or Non-Taxable</b>
Radius Allowance <b>(Scale 1)</b>	9.1	Partially taxable – see para 3
Radius Allowance <b>(Scale 2)</b>	9.1	Taxable – see para 3
Accommodation Allowance	9.2	Paid tax free in certain circumstances – see para 4
Retention Fee for Accommodation	9.2	Paid tax free in certain circumstances – see para 4
Special Travel & Accommodation Arrangements within the M25 <ul style="list-style-type: none"> <li>• London Supplement</li> <li>• Travel Cards</li> </ul>	9.3 9.3	Taxable – see para 5 Taxable – see para 5
Transport Expenses	9.4	Paid tax free in certain circumstances – see para 4
Travelling Time Allowances	9.4	Taxable - see para 4
Payment for Holidays	10	Taxable – see para 6
Redundancy Payments	16.5	Paid tax free upon genuine redundancy, as defined in the Employment Rights Act 1996 -see para 7
Proficiency Pay for Welding	6.4	Taxable – see para 8
Welfare Benefits	11.3 & Appendix A.7(a)	Weekly sickness and accident benefit taxable. Death Benefit, Fatal Accident and Disablement Benefits not normally taxable – see para 9

3. **RADIUS ALLOWANCE – NAECI (2022 – 2023) 9.1 AND APPENDIX A.4**

**Scale 1**

Scale 1 radius allowance, payable to employees travelling to work by their own means, is made up of two elements, an allowance towards the **cost** of travelling daily to and from the site, and an allowance in respect of the **time** spent travelling.

HM Revenue & Customs advise the amounts that make up taxable and tax free elements. The financial values are detailed in NAECI A.4.

It is important to note that the above HM Revenue & Customs tax treatment does not apply in cases where employees have been recruited at a site (as distinct from being recruited at the company's office off site or at its head office) to work on that site. In such cases the full amount of Scale 1 radius allowance is taxable.

**Scale 2**

Scale 2 radius payments (made where the employer provides free transport to and from the place of work), are deemed by HM Revenue & Customs to be wholly a payment for time spent in travelling and are therefore taxable.

**Employment Intermediaries**

From 6<sup>th</sup> April 2016, HMRC have decreed that anybody engaged through an employment intermediary (e.g. an ECIA Employment Business) is not entitled to tax relief on travel and subsistence payments. Employment Businesses are therefore no longer able to pay radius allowance, on a tax free basis, on any assignment.

**Other Tax Charges**

Where employees are provided with the use of a van or car, or with fuel for a company car for travel to or from home to site, taxable benefits can arise. This does not impact on PAYE. If clarification is required, employers should contact HM Revenue & Customs. Contact details can be found on the HM Revenue & Customs pages on the Gov.UK website.

4. **ACCOMMODATION ALLOWANCE – NAECI (2022 – 2023) 9.2**

By long standing agreement with HM Revenue & Customs, allowance payments made to employees strictly in accordance with the rules set out in NAECI (2022 – 2023) 9.2, and where the employee and employer have properly completed the relevant NAECI application form contained on the NJC website ([www.njceci.org.uk](http://www.njceci.org.uk)), are tax free.

It is again important to note that this arrangement does not apply on a first assignment, where employees have been recruited at a site (as distinct from being recruited at the company's office off site or at its head office) to work on that site. In such cases the full accommodation allowance is taxable.

The application form also makes it clear that it is the responsibility of employees to inform their employer about any accommodation allowance payments they received which relate to nights on which they have neither occupied nor paid for lodgings. Such payments are taxable. The accommodation allowance will also be taxable where the employee does not incur expenditure on lodging, eg, s/he stays in a caravan and does not pay commercial site fees. Local HM Revenue & Customs offices will advise.

Single men and women without dependants can qualify for payment of accommodation allowances without deduction of tax in cases where they have been able properly to complete the relevant declarations contained in the application form.

### **Retention Fee for Accommodation**

NAECI (2022 – 2023) 9.2 also contains provision for the reimbursement by employers of expenses actually paid by employees by way of retention fees or retainers, for periods when accommodation is not occupied, up to a maximum stipulated in NAECI (2022 – 2023) Appendix A.5(b) & (c) . In all such cases, if the payment is to be made without deduction of tax, the employee must provide the employer with a receipted invoice or similar proof of payment.

### **Employment Intermediaries**

From 6<sup>th</sup> of April 2016, HMRC have decreed that anybody engaged through an employment intermediary (e.g. an ECIA Employment Business) is not entitled to tax relief on travel and subsistence payments. Employment Businesses are therefore no longer able to pay accommodation allowance, on a tax free basis, for any assignment.

### **Transport Expenses and Travelling Time Payments – NAECI (2022 – 2023) 9.4**

The NAECI provides for the payment, to employees in receipt of accommodation allowance:

- transport expenses at the start and finish of an 'away' contract comprising fares or vouchers, reimbursed at full standard class single rail fares between the main line stations nearest the site and the employee's place of residence. These **transport expenses** may be paid without deduction of tax.

- periodic weekend leave transport expenses comprising fares or vouchers reimbursed at full standard class return rail fares between the main line stations nearest to the site and the employee's place of residence on twelve occasions during the year. These **transport expenses** may be paid without deduction of tax.

Allowances or payments related to **travelling time** for such journeys are taxable.

## 5. SPECIAL TRAVEL AND ACCOMMODATION ARRANGEMENTS WITHIN THE M25 – NAECI) (2022 – 2023) 9.3

### **London Supplement**

A London supplement at the level in NAECI (2022 – 2023) Appendix A.6 is payable to employees in receipt of accommodation allowance and engaged on work within the M25 orbital motorway. The London supplement is taxable.

### **Travel Cards**

Employees in receipt of the London supplement and in receipt of accommodation allowance are entitled to a free issue of a London travel card from the London public transport zone in which the accommodation is located to the London site at which they are employed.

Employees in receipt of radius allowance and travelling to work daily from areas beyond the London public transport zones are entitled to the free issue of a London travel card from Zone 6 to the Inner London site at which they are employed.

There are no concessionary arrangements applying to the provision of travel cards by employers and the Employer's Guide to PAYE explains that employees will be taxable on the cost of the cards. Employers are not required to deduct tax but are obliged to provide full details of the cards to HM Revenue & Customs.

## 6. PAYMENT FOR HOLIDAYS – NAECI (2022 – 2023) 10.3

Payment for any period of annual or public holiday taken by an employee shall comply, where applicable, with the relevant statutory provisions.

Holiday pay is fully taxable when paid to the employee at the time the holiday is taken, and on payment to the employee of any outstanding balance upon termination of employment.

7. REDUNDANCY PAYMENTS – NAECI (2022 - 2023) 16.5

HM Revenue & Customs' approval has been obtained by the NJC to the levels of redundancy payments (inc. Contractual Severance Pay) stipulated in the NAECI being payable tax-free, under Chapter 3 of Part 6 of the Income Tax (Earnings and Pensions) Act 2003, since they are less than the £30,000 exemption limit. This agreement applies only where the payments made are precisely in line with those set out in the NAECI and the employees concerned are 'dismissed as redundant' in the terms defined in the Employment Rights Act 1996.

By arrangement with HM Revenue & Customs Redundancy payments made strictly in accordance with this standard scheme upon genuine redundancy, as defined in the Employment Rights Act 1996, will not be subject to income tax. Therefore employees who leave voluntarily or who are dismissed for reasons other than redundancy are not entitled to the contractual severance / statutory redundancy payment, nor to the tax concession applying to it.

This does not apply to other guaranteed lump sum payments made in addition to redundancy payments. Guaranteed lump sum payments described as being 'in lieu of notice', but paid by prior agreement to employees on termination, would therefore not qualify for this treatment and are subject to tax and liable to National Insurance contributions in the usual way.

8. PROFICIENCY PAY FOR WELDING – NAECI (2022 - 2023) 6.4

All categories are taxable.

9. WELFARE BENEFITS – NAECI (2022 - 2023) 11.3 AND APPENDIX A.7(a)

The payment of weekly sickness and accident benefit by the employer under NAECI (2022 - 2023) Appendix A.7(a) should be treated as part of normal pay and taxed.

Employers shall provide sickness, accident and death benefit arranged by the ECIA through Welplan Limited or through mutually agreed alternative schemes which deliver the benefits as prescribed by NAECI. The current scale of benefits is listed in NAECI (2022 - 2023) Appendix A.7(a). Disablement and death benefits are payable tax free.