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[www.hmrc.gov.uk](http://www.hmrc.gov.uk)

Dear John

### **Bexley Services and the MPs' expenses scheme**

Thank you for your letter dated 3 August. Please accept my apologies for the delay in replying.

I have noted your further comments and observations about the distinctions between expenses received by MPs and expenses received by other employees. As you rightly point out, these distinctions are recognised in the tax system by way of the specific income tax exemptions at sections 292 and 293A of the Income Tax (Earnings and Pensions) Act 2003 ("ITEPA").

Those provisions were introduced in recognition of the particular constitutional role of MPs and the fact that they are required to perform their duties both in their constituency and in Westminster. The fact that MPs are office holders, not employees, is not a distinction which on its own warrants special tax treatment. In this respect I should point out that the general rules for claiming tax relief on employment-related expenses apply equally to employees and all office holders.

Against this background, HMRC's position on the tax treatment of expenses incurred on externally provided 'expenses management services' still remains as stated in my email to [REDACTED] dated 20 July 2011. Such expenses will not qualify for a deduction under section 336 ITEPA as they are not incurred wholly, exclusively and necessarily in the performance of the duties of the employment.

In particular, the "necessarily" and "in the performance of the duties" legs of the test are not satisfied, even allowing for the particular circumstances of MPs. HMRC has advised IPSA on a number of occasions that the tests in section 336 are applied much more strictly than the IPSA pre-condition that expenses must be necessarily incurred in the performance of an MP's parliamentary functions, hence the reason for the specific exemptions in sections 292 and 293A in relation to accommodation and travel expenses.

Accordingly, the expenses in question are not appropriate for inclusion in IPSA's dispensation. You have made the point that the expenses management service would be claimable as 'professional services' under all editions of the scheme from either of the GAE/OCE or staffing budgets, depending on the nature of the services provided. You go on to say that 'professional services' could include legal advice or accountancy advice where such advice is necessary for MPs to carry out their parliamentary functions and the dispensations granted cover these services. I'm afraid I must disagree on that point. The dispensation granted to IPSA on 26 May 2011 for GAE expenses paid under the second scheme does include professional services but it explicitly excludes accountancy services. The dispensation also explicitly excludes payments or reimbursements for any private use. Dispensations to cover payments made under the third scheme have yet to be issued, however the same stipulations will apply.

Finally, I can confirm that HMRC has not changed its position following earlier discussions between HMRC and IPSA, including those with Dave Hartnett. There was no mention of reimbursement of expenses for externally provided 'expenses management services' in the scheme rules and IPSA did not ask for specific advice on the tax implications of reimbursing such expenses. The first two editions of the scheme rules clearly stated that personal accountancy would not be reimbursed by IPSA so there was no need to discuss the tax implications. If the scheme rules specifically allowed MPs to claim personal accountancy or similar expenses, HMRC would have advised that tax relief would not be available for such expenses and a dispensation would not be granted.

I hope this clarifies HMRC's position.

Yours sincerely



Customer Relationship Manager