

When does the tax break for late night travel apply?

Over Christmas you were roped into entertaining clients and it was late in the evening when you finally took an expensive cab ride home. A colleague says that you'll have to pay tax on the cost of the journey. Surely this can't be right?

Entertaining as an employee

As a director or senior employee it isn't unusual to have to work long hours. This might keep you out late in the evening and perhaps beyond the time when public transport is available. If you catch a cab and charge it to the business, special tax rules can come into play.

Commuting costs

The cost of travelling to and from work isn't a tax allowable expense and therefore if your company pays, it usually counts as a taxable perk. However, the good news is that in the right circumstances there may be an exemption.

Tax break for commuting

Where your business pays for you to travel home after working late it won't count as a benefit in kind if all of the following conditions apply:

- you were required to work until at least 9.00pm
- working late isn't a usual requirement of your job
- public transport for the journey isn't available or it's not reasonable for you to use it at that time (this might particularly apply to women travelling on their own)
- the journey is made by taxi or similar private transport.

Taxi or similar. HMRC used to insist that for the exemption to apply the journey had to be made in a "vehicle for hire". But it now says the type of transport is no longer contentious. Your company could, say, pay one of your friends to collect you. It seems reasonable to use HMRC's approved mileage allowance payment rate, which for 2016/17 is 45p per mile for the first 10,000 miles per year.

The exemption and entertaining late

Looking after customers is a vital part of being in business, and this might keep you out late and not fit to drive yourself home afterwards. The rules specifically say that entertaining costs, which include associated travel, aren't tax deductible. If your company pays for you to take a taxi home after an evening entertaining customers, your business must not claim a tax deduction for the cost or your company must treat it as a taxable perk for you. The exemption doesn't apply.

Tip. It's usually simpler and more tax and NI-efficient for your business not to claim a tax deduction. Therefore, no taxable benefit in kind will arise. Plus, because there's no benefit there's no employers' Class 1A NI and no declaration is required on Form P11D .

Exception to the entertaining rule

Where the main purpose of meeting the customer was to discuss business, and you hold part or all of the meeting in a local restaurant etc., the cost of any food and drink you pay for counts as entertaining. However, the cost of the journey home by taxi etc. can be covered by the late night travel exemption as the purpose of the meeting was business and the entertainment was secondary.

Summary

If your company pays the cost of a taxi home after a business meeting that has run on to 9.00pm or later, this won't count as a taxable perk. This exemption doesn't apply if the purpose of the meeting was entertaining customers. However, the tax charge can be avoided if the business doesn't claim a deduction for the expense.