



## Tax relief for home computing equipment

Standard Note: SN/BT/4007  
Last updated: 26 April 2006  
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In Budget 1999 the Government announced a new tax relief “to encourage wider computer use and computer skills among employees.” From April 1999 employees who took up an employer’s offer of a loan of computer equipment would not be taxed on the value of this benefit in kind, provided the value of the equipment was no more than £2,000.<sup>1</sup> Alongside this it was also announced that the existing flat rate tax charge on an employer-provided mobile phone – which had been introduced in April 1991 – would be removed, to relieve employers of “an unwelcome record keeping and reporting burden.”<sup>2</sup> It was estimated that these measures would cost £5 million and £25 million in 1999-2000 respectively.<sup>3</sup>

In Budget 2006 the Government announced that the exemption for computer equipment would be removed, and the exemption for mobile phones would be restricted to the loan of a single phone for private use to an employee, and would no longer cover any loan to members of the employees’ family or household.<sup>4</sup> It is estimated that taken together these changes will raise £50 million in 2006-07.<sup>5</sup> Following the Budget, HM Revenue & Customs confirmed that individuals covered by *existing* home computer schemes would not be affected.<sup>6</sup> Nevertheless, the removal of this exemption proved quite controversial, in part because in January 2004 the Government had launched the Home Computer Initiative, actively encouraging businesses to set up loan schemes.<sup>7</sup>

This note gives some background on the introduction of these tax reliefs, and the reaction there has been to the proposals to amend them.

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<sup>1</sup> Inland Revenue press notice IR6, 9 March 1999

<sup>2</sup> Inland Revenue press notice IR7, 9 March 1999

<sup>3</sup> *Budget 99* HC 298 March 1999 pp 112-3

<sup>4</sup> HM Revenue & Customs Budget Note BN30, 22 March 2006

<sup>5</sup> *Budget 2006* HC 968 March 2006 p 188

<sup>6</sup> HMRC, *Transitional arrangements for home computer schemes*, 24 March 2006

<sup>7</sup> “IT industry to urge rethink on end of home computer deal”, *Financial Times*, 25 March 2006

## A. Introduction of home computing exemption

In his 1999 Budget speech the Chancellor Gordon Brown announced a new tax relief to encourage the use of computers in the home, as part of a wider strategy to support the development of information technology (*emphasis added*):

New targeted tax cuts and public investment to equip all our companies and all our people for what is the newest and most decisive challenge of the 21st century--the mastering in our economy of the new information technologies, from the PC to the internet, from e-mail to e-commerce. This industry is the greatest driver of world economic growth today. Britain can no longer afford to lag behind America.

So, today, we are allocating an additional half a billion pounds from our capital modernisation fund to launch a £1.7 billion "Computers for All" initiative, a nationwide effort enlisting schools, colleges and companies, public and private sectors together, across the board, so that Britain can lead in the information economy. Our target is a national network of 1,000 computer learning centres, one for every community in Britain. They will be in schools, colleges, libraries and internet cafes in the high street. It is a whole network of computer learning with one purpose only: that the whole of Britain is equipped for the information age ... *Inequality in computer learning today will mean inequality in earning power tomorrow, so to bring more computers into more British homes, we will legislate so that employees will be able to secure computers on loan from their companies as a tax-free benefit.*<sup>8</sup>

Further details were given in a press notice at the time:

Employees earning over £8,500 are generally taxable on benefits in kind which they receive by reason of their employment. So where an employer makes an asset freely available to an employee, for example a computer, which the employee can use for private purposes at home, an income tax charge will arise.

The annual amount of the charge will generally be 20% of the asset's market value, plus any related expenses which the employer meets. So where a computer is provided free to an employee by an employer for his private use and has a market value of £1,800, and where the employer also pays £80 a year for breakdown/repairs insurance, the income tax charge on the benefit would be on £440 (£1,800 x 20%,+ £80). The Chancellor's proposal will remove the tax charge in such circumstances for up to £2,000 of computer equipment benefit provided to an employee. The normal taxing rules will apply on the value of the benefit in excess of £2,000; and the exemption will not be given if the equipment is confined to directors and senior staff.<sup>9</sup>

At the time it was estimated that the measure would cost about £5 million in 1999-2000, rising to £15 million in 2000-01 and £30 million in 2001-02;<sup>10</sup> this press notice also stated that the new exemption would "be reviewed after a period in the light of the spread of computer access and of technological developments."

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<sup>8</sup> HC Deb 9 March 1999 cc 179-180

<sup>9</sup> Inland Revenue press notice IR6, *Tax boost to widen computer use*, 9 March 1999

<sup>10</sup> Budget 99 HC 298 March 1999 p 112

Legislation to allow for a limited exemption for computer equipment was included in the *Finance Act 1999* (section 45); it is now incorporated in section 320 *Income Tax (Earnings and Pensions) Act 2003 (ITEPA)*. The provision sets a £500 limit on the tax relief for an employer-provided computer; if the equipment loaned to the employee is worth more than this, then the excess is added to their taxable income.

The *general* rule regarding assets loaned to employees and directors for their private use, is that the individual is regarded receiving a taxable benefit, valued at the higher of:

- the annual value of the use of the asset, calculated at 20% of the asset's market value when first provided to the employee; and
- the annual hire charge paid by the employer, plus any related additional expenses.<sup>11</sup>

HM Revenue & Customs' manual on employment income provides a short explanation of how the £500 exemption for computer equipment works with this general rule:

The exemption creates an exempt "bottom slice" of the first £500 of cash equivalent.

Consequently if an employer owns a computer that he provides to an employee, then for:

- computer equipment worth up to £2,500 (annual value 20% of £2,500 = £500), or
- computer equipment worth say £2,000 (annual value 20% of £2,000 = £400) and maintenance expenses of £100 yearly, or
- any other combination of annual value and yearly running expenses that does not exceed £500,

the employer does not have to report any benefit on Form P11D.

Remember that the "second hand" market value of computer equipment will almost always be less, sometimes much less, than the employer paid for it. So in many instances an employer will have nothing to report, and the employee will have nothing to put on their tax return, in respect of a provided computer.

If the employer leases a computer provided to an employee, the cost of the benefit is the higher of the annual value and the annual leasing charge ...

For example, if an employer leases over three years a computer with a value of £2,500, the annual leasing cost is £833. This figure exceeds the annual value of £500 (£2,500 x 20%). So the cost of the benefit is the higher figure of £833 but the first £500 is exempt, leaving the balance of £333 to be charged as a benefit.

The £500 exemption applies for each year of assessment. If the computer is first provided part way through a year the £500 is not time apportioned. The full £500 exemption applies in calculating the cash equivalent for the year. The same applies in a year when the computer equipment ceases to be provided.<sup>12</sup>

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<sup>11</sup> under s 205 of *ITEPA 2003*. There are special rules regarding the taxable benefit of certain types of asset.

<sup>12</sup> *Employment Income Manual* "Particular benefits: computers: partial exemption general: Home Computing Initiative" EIM para 21700. The Manual is available at: <http://www.hmrc.gov.uk/manuals/eimanual/Index.htm>

As with other assets, if the employer provided an employee with a computer *solely* for business purposes, and the employee's private use of it was insignificant, then this would not give rise to a taxable benefit.<sup>13</sup>

The measure was debated at the Committee stage of the Finance Bill on 20 & 25 May 1999;<sup>14</sup> on this occasion the then Economic Secretary Patricia Hewitt underlined the point that the Government would review the exemption at a future date:

Tax exemption, up to a reasonable limit, for private use of computers that are lent by employers to employees for use at home is an imaginative measure that will help to spread computer literacy within the United Kingdom. Swedish experience with similar tax relief bears out that belief. We are not arguing that the tax exemption should necessarily be a permanent feature of the tax system. Computer-related technology is developing rapidly and we believe that it will be sensible to review the impact of this limited exemption in a few years to evaluate how far it has gone in meeting its objective--that is, the wider dissemination of computer literacy ...

For the current tax year, we estimate a cost of £5 million. In the Red Book we said that we expected the cost to rise to £15 million next year and to £30 million the year after. Those costings are based on a projected take-up of 50,000 computers, worth on average £1,600, in the first year. We expect the number of computers to rise to 150,000 and then 300,000 over the following two years. If those figures prove to be underestimates, that will be a tribute to the proposal's popularity and success--it will show that it has turned out to be even more successful than we had hoped.<sup>15</sup>

Conservative Members were generally supportive of the Government's objectives, but raised concerns about introducing this type of relief. Nick Gibb MP said that the clause was "welcome" but that "the proposal also gives a neon light to tax planners to find benefits that comply with the clause's provisions and enable employers to give employees some tax-free benefits."<sup>16</sup> Stephen Dorrell MP argued that in providing relief for the supply of "computer equipment", the scope of the relief was far too wide, given the widespread use of computers to play music and watch television: "the Economic Secretary is introducing into tax law the principle that equipment such as compact disc players [and] televisions ... is definable as computer equipment."<sup>17</sup> In response to Mr Dorrell's point, the Minister explained that "the clause refers to 'computer equipment' meaning computer equipment in the everyday sense of that term. We have deliberately not included a comprehensive definition of computer equipment, because any such definition is likely to be rendered obsolete very quickly in their fast moving sphere."<sup>18</sup>

At an earlier stage in the debate the Committee approved the other measure announced in the Budget, scrapping the tax charge on an employer-provided mobile phone.<sup>19</sup> Details on this measure had been given in a second Budget note:

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<sup>13</sup> This general rule is established under s 316(2) of *ITEPA 2003*. EIM para 21613 gives guidance on what would count as insignificant private use for these purposes.

<sup>14</sup> SC Deb (B) 20 & 25 May 1999 cc 369-389

<sup>15</sup> SC Deb (B) 25 May 1999 cc 381-2, 385

<sup>16</sup> SC Deb (B) 20 May 1999 c 371

<sup>17</sup> SC Deb (B) 20 May 1999 c 377

<sup>18</sup> SC Deb (B) 25 May 1999 c 383. The Committee divided, but the clause was approved without amendment.

<sup>19</sup> SC Deb 20 May 1999 cc 367-9. The clause was approved without a division.

Since 1991-92, where an employer provides an employee with a mobile telephone which is used for private calls, the employee has had to pay tax on an annual scale charge of £200. This has imposed an unwelcome record keeping and reporting burden on employers. Employees could escape liability if they made no private use of the mobile telephone provided or they were required to reimburse the full cost of any private use and did so. But that imposed further unwelcome compliance burdens on employees and employers. The Inland Revenue will alter PAYE codes in May this year to remove the tax charge on mobile telephones. Employees and their employers need take no action themselves.<sup>20</sup>

When the measure was debated in Committee, the Economic Secretary noted that under the old rules if employees wished to avoid the tax charge, they had to draw up a list of all the private and business calls they had made with their phone: "It has proved to be one of the most unwelcome and complicated aspects of employees' benefits tax legislation that employers have had to operate. That is why we have decided to abolish it."<sup>21</sup> Provision was made in s 44 of the *Finance Act 1999*, and is incorporated in s 319 of *ITEPA 2003*.

HMRC's *Employment Income Manual* provides guidance on the scope of this relief; it makes the observation that technological developments since 1999 have seen a wider range of devices covered by the exemption:

The exemption for computer equipment ... applies:

- to any computer (including "laptops") whether used partly for work purposes or wholly privately and
- to any associated equipment such as a printer, scanner, modem, data storage device or other peripheral equipment "designed to be used by being connected to or inserted into a computer" and
- to any software used on the computer
- whether the computer is provided to the employee or director themselves or to a member of their family or household ...

Whether an item of equipment is a computer is a question of fact. It will usually be obvious from the functions that the equipment can perform. A machine that can be used to compute will fall within the definition even if the director or employee uses it only for tasks, such as word processing or sending and receiving Emails, that involve little or no computation in the strict sense of the word. However a game playing machine (even one that works by the insertion of a disk or cartridge containing the game) is not "computer equipment" if it is not also capable of doing computations for the user. The same applies to an ipod or MP3 player.

... Since the computer exemption was introduced in 1999, the number of devices that can conduct some functions normally associated with a computer has grown considerably. A common example is the Personal Digital Assistant or PDA. Early versions of PDAs were little more than an electronic diary, but as the technology evolved some, such as the Blackberry, had a primary function as a mobile phone. These early PDAs were exempt from tax under the mobile phone exemption in Section 319 *ITEPA 2003* ... That exemption continues to apply to these early PDAs.

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<sup>20</sup> Inland Revenue press notice IR7, 9 March 1999

<sup>21</sup> SC Deb (B) 20 May c 368

More recently the PDA, including more recent versions of the Blackberry, has developed to such an extent that it now provides additional functions more typically associated with a computer and so can no longer be considered to be primarily a mobile phone. Consequently where an employer provides an employee with such a PDA it is exempt as a computer under Section 320.<sup>22</sup>

The impact of this exemption was raised in a PQ in January 2004:

**Mr. Stephen O'Brien:** To ask the Secretary of State for Trade and Industry what assessment she has made of the impact of the £500 annual exemption from the taxable benefit on loaned personal computers introduced in the Finance Act 1999; and what steps are being taken to promote awareness of the exemption. [146140]

**Dawn Primarolo:** I have been asked to reply. The information on which to make an estimate is not available. But on 19 January my right hon. Friend the Secretary of State for Trade and Industry launched a major campaign, the Home Computing Initiative, to encourage employers to take advantage of this exemption and lend computers to their employees.<sup>23</sup>

At this time the then Trade and Industry Secretary, Patricia Hewitt, published guidelines to encourage companies to take advantage of the tax relief on employer-provided equipment, in association with the 'HCI Alliance' – an industry group representing BT, Intel and Microsoft, supporting the promotion of this initiative:

The guidelines produced by the DTI in association with DfES and the Cabinet Office aim to help British businesses and public sector organisations take advantage of the £500 annual tax exemption on loaned computers introduced by the Chancellor in 1999. The exemption enables companies to loan computers to their employees as a tax-free benefit. By loaning computers to employees businesses can offer employees a valuable benefit which at the same time helps to maximise organisational performance through worker improved ICT skills ... The Government is working closely with industry to promote HCI schemes. The HCI Alliance, comprising BT, Intel and Microsoft, have pledged funds and resources to help the Government promote the guidelines and HCI schemes more broadly.<sup>24</sup>

The guidelines explained that employers might wish to offset the cost of loaning equipment by using a 'salary sacrifice' – the process where an employee accepts a reduction in their gross annual salary in return for a benefit:

A salary sacrifice scheme may be used to recover the cost of loaning the computing equipment to the employee. A salary sacrifice happens when an employee gives up the right to receive part of their cash pay due under their contract of employment. A salary sacrifice is neither a deduction from salary nor is it a charge on salary, it is where the employee agrees to accept a lower amount of salary – usually in return for

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<sup>22</sup> *Employment Income Manual* "Particular benefits: computers: partial exemption: what computer equipment falls within the exemption" para 21701

<sup>23</sup> HC Deb 19 January 2004 c 1041W

<sup>24</sup> HCI Alliance press notice, *Hewitt publishes home computing initiative guidelines*, 19 January 2004. THE DTI published details of the scheme: *Maximising potential in the workplace – employer provided home computer initiatives URN04/631*, February 2004. The guidelines are available on the HCI Alliance site at: <http://www.ukhomecomputing.co.uk/govGuidelines.asp>

the employer's agreement to provide some form of non-cash benefit (in this case the loan of computing equipment). For a benefit such as a loaned computer, where there is a specific tax exemption, the employee can receive a tax and NIC-free benefit instead of salary on which tax and Class 1 NICs would have been fully payable.

For example: if it is assumed that the employee is loaned equipment worth £1,500 over a period of three years they could sacrifice as little as £9.62 per week from their gross salary. Net of tax and NICs this would be £6.44 for a basic rate tax payer (22% income tax plus 11% NICs) and £5.67 for a higher rate tax payer (40% income tax plus 1% employee NICs).<sup>25</sup>

To facilitate the HCI, the Office of Fair Trading issued a 'group consumer credit licence' to cover these type of hire agreements:

The OFT has issued a new group consumer credit licence ... to cover employers implementing Home Computing Initiative (HCI) schemes. HCI schemes allow employers to loan computer equipment to employees free of any income tax liability. HCI schemes give staff the chance to access computer equipment at home while also giving them the advantage of an income tax exemption. The OFT considers that the agreements between employers and employees participating in the schemes will be consumer hire agreements as regulated by the *Consumer Credit Act 1974*. The OFT has therefore issued a consumer credit group licence to cover consumer hire agreements entered into by employers participating in the HCI schemes. Employers will be covered by the group licence so long as they are undertaking activities within its terms. Penny Boys, OFT Executive Director, said: 'The group licence enables employers to provide home computing benefits to staff without requiring them to apply individually for a consumer credit licence for this purpose.'<sup>26</sup>

From April 2004 the exemption was extended to cover cases where an employee had accepted the loan of computer equipment, when offered a loan *or* cash equivalent in salary (under section 79 of the *Finance Act 2004*). When the provision was scrutinised in Standing Committee, the Paymaster General Dawn Primarolo commented on the take-up of the scheme to date: "since the exemption was introduced, we have not had exact figures on the take-up for obvious deregulatory reasons. Employers do not have to report to the Inland Revenue details of an exempt benefit. Other information, particularly the changing arrangements between employee and employer—the introduction of flexible working and the growth of home working, particularly in IT, the development of which has assisted work-from-home—demonstrates that, increasingly, employers are loaning employees computers."<sup>27</sup>

In spring 2005 the DTI and the Prime Minister's Strategy Unit published a report on improving the reach of internet access across the whole population; as part of this, it was noted that the Treasury would review the effectiveness of the Home Computing Initiative (*emphasis added*):

#### **Reform the Home Computing Initiative**

55. In a bid to boost the penetration of computers into the home, the then Office of the e-Envoy, with the DTI and the Department for Education and Skills prepared

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<sup>25</sup> DTI, *Employer provided home computer initiatives – implementation guide URN04/632*, February 2004 p 4

<sup>26</sup> OFT press notice 05/04, 13 January 2004

<sup>27</sup> SC Deb (A) 18 May 2004 c 217

guidelines for companies who wished to offer home computing initiatives to their staff ([www.ukhomecomputing.co.uk](http://www.ukhomecomputing.co.uk)). *These initiatives allow an individual through their employer to have the use of a personal computer up to the value of £2500 per annum as a tax free benefit. However, the scheme should be reformed further to benefit those most in need of Government help in accessing ICT. HMT will review the impact and cost of the Home Computer Initiative to ensure that it is targeted most effectively at those with the lowest take up.*

56. Most initiatives run by employers are run in conjunction with salary sacrifice. This has had an unforeseen impact, in that those on minimum wage cannot enter such an arrangement. The Government is committed to exploring further how this might be resolved and will commission the Low Pay Commission to consider the problem as soon as possible.

57. Another barrier to some companies – particularly SMEs – implementing the scheme is the requirement for the Office of Fair Trading to formally approve implementation of the HCI. An amendment to the Consumer Credit Bill which would remove the need for OFT to check every scheme received its third reading earlier in March 2005. There needs to be consultation on new guidance, and under the current timetable the new regime will apply from October. The Government will ensure that this barrier to implementation of the scheme is removed.<sup>28</sup>

In January 2006 the HCI Alliance published some research on the take-up of the initiative over the previous two years:

The number of UK companies offering HCI schemes to employees has more than tripled in the past year. More than 1,250 organisations have implemented schemes, up from 380 at the same time last year. Recent research carried out by the HCI Alliance also indicates that 75% of employees taking up HCI computers are lower rate tax payers – a positive sign that the schemes are contributing to the achievement of the Government's objectives of bridging the UK's digital divide ... Five million employees have now been offered the opportunity of acquiring a home computer through an HCI scheme, an increase of 39% on last year.<sup>29</sup>

Some statistics on the update of the scheme have also been given in two recent written answers:

**Jo Swinson:** To ask the Secretary of State for Trade and Industry how many small businesses enrolled in the Home Computing Initiative Scheme in each year since 1999, broken down by region. [64164]

**Alun Michael:** I am unable to provide a statistical breakdown of how many small businesses enrolled in the Home Computing Initiative Scheme in each year since 1999 or by region because this information is not available. However, recent figures provided by the Office of Trading tell us that nearly 4,000 approvals or HCI Group Directions under s101 (8) Consumer Credit Act (CCA) 1974 had been issued by OFT since January 1999. We are unable to break this list down by region or by size of business.<sup>30</sup>

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<sup>28</sup> Prime Minister's Strategy Unit / DTI, *Connecting the UK: the Digital Strategy*, April 2005 p 46

<sup>29</sup> HCI Alliance press notice, *Home computing schemes help to bridge the digital divide*, 19 January 2006

<sup>30</sup> HC Deb 24 April 2006 c 826W



**Jo Swinson:** To ask the Secretary of State for Trade and Industry how many individuals have participated in the Home Computing Initiative Scheme in each year since 1999, broken down by region. [64165]

**Alun Michael:** I am unable to provide a statistical breakdown of how many Individuals have participated in the Home Computing Initiative Scheme in each year since 1999 or by region. This information is not available. A recent estimation provided by the HCI Alliance (BT, Intel and Microsoft) indicates that over 500,000 units have been loaned under the Home Computer Initiative Scheme since 1999.<sup>31</sup>

## **B. Budget 2006**

In *Budget 2006* the Government announced changes to the tax treatment of both computer equipment and mobile phones provided by employers:

5.106 Many employees have benefited from the tax exemption to get a computer into their homes, but the Government now wishes to focus support on groups with the poorest access to technology, to meet the goals set out in the Digital Strategy. As a result, the Government has decided to remove the current tax exemptions for employer-provided computer equipment, from 6 April 2006. The tax exemption for mobile phones is also being refocused to ensure it delivers on its objectives.<sup>32</sup>

A Budget note issued at the time gave more details:

Computers and mobile phones loaned to employees by their employer may be exempt from the tax charge on the benefit in kind arising. For computers (section 320 *Income Tax (Earnings and Pensions) Act 2003 (ITEPA)*) the exemption currently applies to the first £500 of annual benefit in kind. There is currently no limit to the number of mobile phones that can be loaned and no financial limit (section 319 *ITEPA*).

This measure will remove the exemption for computers made available by employers to their employees for private use. It will also restrict the number of mobile phones employers can loan to employees for private use tax-free to one per employee, and will not extend to members of the employees' family or household.

The measure will also amend section 319 *ITEPA* to ensure that where an employee has been provided with a mobile phone for private use through a salary sacrifice arrangement no charge will arise under the general earnings charge of section 62 (3) *ITEPA*, even if the employee has the right to surrender the phone for additional wages or salary.

Some employers have chosen to use vouchers as the mechanism for making available mobile phones to their employees for private use. In these circumstances a charge to tax and Class 1 National Insurance contributions (NICs) arises on the provision of the voucher. This measure will exempt the provision of a voucher from tax and NICs where it is used to facilitate the loan of a mobile phone to an employee for private use, but only where the benefit in kind arising on the loan of the mobile

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<sup>31</sup> HC Deb 25 April 2006 c 989W

<sup>32</sup> HC 968 March 2006 p 118

phone would have been exempt if a voucher had not been used. This will mean that from 6 April 2006 the method used by employers to loan mobile phones to employees will have no effect on the outcome for tax and NICs purposes.<sup>33</sup>

It is estimated that taken together these changes will raised £50 million in 2006-07, rising to £100 million in 2007-08, and £150 million in 2008-09.<sup>34</sup> Following the Budget HMRC published details of the transitional arrangements to apply to existing home computer schemes:

Following the Chancellor's budget announcement abolishing the tax exemption on the provision by employers of computer equipment for private use with effect from 6 April 2006, in response to a number of enquiries, HMRC confirm that anybody who has had a computer made available for private use before 6 April 2006 will **not** be affected by the change. If an employee entered into an HCI scheme arrangement with their employer before 6 April 2006, and under that arrangement the employer is committed to provide a computer to the employee, but for reasons beyond their control the employee cannot take physical possession of the computer until 6 April or later, HMRC accepts that the computer exemption will apply to the provision of that computer.<sup>35</sup>

In response to the Budget announcement the HCI Alliance argued that the Government should reconsider this decision; an extract from their press notice is given below:

HCI is a cornerstone of the government's Digital Strategy which sets out to make computing more universally accessible – providing individuals with better job opportunities, easier access to public services and improving their quality of life. The Alliance reinforced its conviction – qualified by statistical evidence – that the schemes are helping the government achieve these goals.

Vivien Quinn, Director for the HCI Alliance, said: "We know the digital divide cannot be bridged by HCI alone, but we fundamentally believe it is making a real difference. The statistics speak for themselves; more than 500,000 PCs have been delivered to UK citizens via the schemes; 60% of these have been acquired by blue collar workers and 75% by employees who pay the standard rate of tax or lower. The schemes are proving incredibly popular. More than 1,250 UK employers of all sizes have schemes in place, including 375 public sector organisations. In addition to improving the IT skills of their workforce, employers see these schemes as a powerful way of attracting and retaining talent. Their abolition will be viewed as an enormous loss by employers and employees alike ... We urge the Government to reconsider its decision. The response from employers, the public and industry has been overwhelming. We would welcome the opportunity to meet with Ministers and officials to understand the reasons behind this sudden decision, and discuss with them how we could address their concerns."<sup>36</sup>

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<sup>33</sup> HM Revenue & Customs Budget Note BN30, 22 March 2006

<sup>34</sup> HC 968 March 2006 p 188

<sup>35</sup> HMRC, *Transitional arrangements for home computer schemes*, 24 March 2006  
<http://www.hmrc.gov.uk/news/home-computer.htm>

<sup>36</sup> HCI Alliance press notice, *Industry Alliance calls on Ministers to reconsider abolition of tax breaks supporting Home Computing Initiatives*, 24 March 2006

The BBC reported that a number of small businesses that had been set up to manage employer-loan schemes now anticipated going out of business:

Two thousand people could lose their jobs after the government pulled the plug on a scheme to help employees get a home computer. The Home Computing Initiative was set up to help lower-paid workers afford their own PC and introduce them to information technology. Half a million people took advantage of generous tax breaks to buy a home computer at discounts of up to 50%. But on Wednesday the chancellor announced the project would end on 6 April, which will leave the 60 companies which supply the computers and run the schemes with no income.

Chief executive of Onecall Technologies Graeme Mitchell told BBC Radio 4's Money Box programme: "Ten days' notice we've been given and we've just lost our jobs. "Onecall will lose 100 jobs and those indirectly related will amount to another 200. "It's an industry of about 2000 people. How can you just pull the plug on it at 10 days notice?" ... The Treasury told the programme it had clear evidence the tax advantages of the scheme were being abused. "Tax exemption is in some cases being used beyond the scope of its original intention. Some HCI providers offer packages including items such as games consoles and home entertainment centres and allow employees to buy equipment rather than borrow it as intended," a spokesman said. But Graeme Mitchell denied there is significant abuse. "That's totally untrue," he said. "There may be cases, but if I look at my business [for example] with a huge UK retailer, all that has been sold to them is thousands of units, all PCs and laptops, all at low-end income brackets, none of them getting consoles, all PC technology. That's where the business is." He called on the government to rethink its plans.

The Treasury told the BBC there would be no change. But the programme understands that officials may meet industry representatives in the next few days. Meanwhile a website has been launched to save the tax relief. Existing schemes, and those where contracts are signed before will be allowed to run for their three year term. The Treasury said it could not comment on any job losses. It will focus its support for IT on groups with the poorest access to it. But no plans will be announced until 2007.<sup>37</sup>

It was also widely reported that two government departments were among the organisations that had been planning to launch their own HCI schemes, prior to the Budget:

Gordon Brown's announcement in the Budget that he was scrapping tax relief for employees who buy home computers through the payroll was not merely a shock to business - at least two government departments were taken by surprise. The departments of Trade and Industry and Work and Pensions were implementing the scheme for their staff. Alan Johnson, the trade and industry secretary, last month agreed that his department should offer the scheme to staff. DTI employees had just a week to apply before the chancellor killed off the initiative.

The DTI put a brave face on the Budget move, saying some employees could still benefit from the scheme's tax break, providing they got their paperwork done before the April 5 cut-off date Mr Brown had set. Officials said the chancellor had told Mr

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<sup>37</sup> "Budget move imperils 2,000 jobs", *BBC News*, 25 March 2006  
At: <http://news.bbc.co.uk/1/hi/programmes/moneybox/4843400.stm>

Johnson about the Budget move - estimated to save £100m-£150m - although the cabinet rarely discovers budget details before the day. At the Department for Work and Pensions, the invitation for companies to tender to the scheme for the ministry's 115,000 staff closed on March 17. The DWP said yesterday: "In the light of the Budget, we're having a rethink." ...

Businesses reacted furiously to the scheme's demise, predicting thousands of job losses. The home computing industry, which had no warning that the scheme, launched in 2004, was to be axed, fears that up to 50 businesses will now fold. "There are about 2,000 individuals working in this industry that Gordon Brown has just signed redundancy notes for," said Simon Dawson of Red PC, a company dedicated to setting up the scheme. CBI, the employers' body, is writing to the chancellor to protest the move, which it claims runs counter to the government's professed aim of improving employees' computer literacy. About 1,250 employers, including private and public sector bodies, offer the scheme to staff. Sir Digby Jones, CBI director-general, said: "I thought the days had gone when the government announced on-the-hoof policy in the Budget."<sup>38</sup>

In a piece on the Budget in the *Tax Journal*, John Whiting (a frequent witness to the Treasury Committee) and Gary Hull, both practitioners at PricewaterhouseCoopers, commented on the measure as follows:

The programme was heavily promoted by the Department of Trade and Industry (and its website continued to extol the scheme until at least a couple of days after the Budget. A number of Government departments had set up - or were in the throes of setting up - such arrangements for their own staff. The reasons for the precipitate withdrawal of the scheme are not wholly clear. Reasons suggested include:

- it was proving too expensive (up to £150 million a year);
- it was open to abuse (with iPods and game consoles reportedly available);
- it wasn't reaching those in real need (that is, the e-illiterate or out of work) but was being used by comfortably-off employees to upgrade their own PCs;
- with the fall in computer prices, it was simply less necessary; and
- employees close to the National Minimum Wage could not legally reduce their salary in exchange for the loan of a PC.

Some of these have validity. But it does appear that if an incentive is successful (shades of the nil rate of corporation tax?) it is in danger of being cancelled. As for the alleged abuse, why not tighten the definitions? And if it really was thought to be not hitting the target, why not say that openly and accompany the announcement with a commitment to provide more computers for libraries and evening classes to at least soften the blow? The result of this is hardly likely to encourage business to participate in government-encouraged initiatives again. There are already reports of significant job losses in the affected businesses and financial losses on deals in hand at the time of the Budget. Why not give a decent period of notice for such a change?

The authors also commented on the change in the existing exemption for an employer-provided mobile phone, noted that the change "is perhaps unsurprising. What was intended as a sensible, deregulatory measure ... was being taken beyond that intended."<sup>39</sup>

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<sup>38</sup> "Brown freeze on tax-break PCs leaves Whitehall cold", *Financial Times*, 25 March 2006

<sup>39</sup> "Bombshells, bangs and pops", *Tax Journal*, 3 April 2006

In a commentary appearing in *Taxation*, the author argued the withdrawal of the exemption would present employers with some difficulties if they wished to provide employees with computers for work use *only*:

The only way businesses can now eliminate this burden is if private use is 'not significant'; see *ITEPA 2003*, s 316(2); this also applies for NICs. 'Not significant' is not defined in statute, but HMRC say that they will accept that the test is met provided that:

- the employer's policy about private use is clearly stated to the employees and sets out the circumstances in which occasional private use may be made; and
- any decision of the employer not to recover the costs of private use is a commercial decision because the administrative costs of doing so would exceed the amounts involved, rather than a desire to reward the employee; and
- there are reasonable checks to ensure that the employer's policy is followed in practice (EIM21613).

Reassuringly, they advise HMRC staff: 'Do not spend time arguing the point where only trivial amounts are involved' and say that 'employers are not expected to keep detailed records of every instance of actual private use in order to substantiate a claim for exemption'. More worryingly, in the context of company vans, *Working Together Bulletin 19* (November 2004) says:

*"Private use will be considered "insignificant" if it is: insignificant in quantity; insignificant in quality; intermittent and irregular; very much the exception in terms of the pattern of use, of that van, by that employee, in that tax year."*

The article does, however, promise that 'Inland Revenue staff would use common sense in applying the test, considering the nature of the business and the use to which the van is actually put'.

One of the main problems arising from the withdrawal of the exemption is thus the burden of monitoring and identifying private use (for the employer) and claiming relief (for the employee). There will inevitably also be an increase in HMRC's workloads: the changes will cause numerous adjustments to PAYE codes. Employers will now face PAYE enquiries covering their employees' private use of computers – a notoriously difficult area to police. How exactly are they to carry out 'reasonable checks' that employees only use the computers for 'occasional' private use? If HMRC follow the *Working Together* guidance, most employees will fail the test – their private usage is unlikely to be insignificant in both quantity and quality, as well as being intermittent, irregular, and very much the exception in terms of the pattern of use.<sup>40</sup>

## C. Finance Bill 2006

The *Finance (no.2) Bill 2006* was published on 7 April: clause 61 makes provision for the repeal of the exemption for computer equipment; clause 60 covers the amendment of the exemption for mobile telephones. In the explanatory notes to the Bill, some comment is made on the Government's reasons for the first of these measures:

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<sup>40</sup> "Outbreak alert", *Taxation*, 6 April 2006

The Digital Strategy, published in March 2005, gave a Government commitment to improve accessibility to technology for the digitally excluded. The significant fall in the cost of a computer has meant that more people than ever can now afford to buy a computer. This will enable the Government to focus resource more effectively towards those who are not in employment or who may not have had access to a computer through their employer.

There is also evidence to suggest that the exemption has been applied beyond the scope of its original intention. Some Home Computer Initiative providers have offered packages that include game consoles and MP3 players and allow employees to buy equipment through salary sacrifice arrangements rather than borrow it – an essential factor in determining whether the tax exemption applies.<sup>41</sup>

During the second reading debate on 24 April, the Chief Secretary to the Treasury, Des Browne, argued that it was fair to remove the exemption: “We are making the change to reflect the reality on the ground. The cost of computers has fallen dramatically, and for the vast majority of those using the exemption, access to information technology has improved, too. In the interests of fairness, we must now target resources on those who need them most: the poorest groups in society, which cannot always access IT.”<sup>42</sup> Speaking for the Conservatives Theresa Villiers argued that it would be better to amend the scheme so that it could not be abused:

It is vital that we ensure that IT skills permeate our community, particularly in relation to the most disadvantaged. Some 300,000 low-income families have benefited from the HCI scheme, many of whom might have experienced difficulty in obtaining credit to buy a PC in the open market. Home computers can also make a huge difference in maintaining a good life-work balance—abolishing the scheme will hit young mums who want to return to work but who need the flexibility to work from home. Why abolish the scheme at a time when the Government demand that more and more of their contact with citizens should take place digitally? ... If the Government really believe that the scheme is being abused, we are happy to work with them on tightening it to prevent such abuse. We urge the Government not to abolish the HCI scheme.<sup>43</sup>

Speaking for the Liberal Democrats Julia Goldsworthy agreed:

As has already been mentioned, the explanatory notes state: ‘There is also evidence to suggest the exemption has been applied beyond the scope of its original intention.’ Reference is made to MP3 and computer consoles being obtained through salary sacrifice rather than borrowing. However, surely it would be possible to propose changes to the existing regime that would make it more affordable and attractive to those on lower incomes, while at the same time closing the loopholes that I have just mentioned.<sup>44</sup>

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<sup>41</sup> EN Bill 161 – Clause 61 Computer equipment

<sup>42</sup> HC Deb 24 April 2006 c 368

<sup>43</sup> HC Deb 24 April 2006 c 375

<sup>44</sup> HC Deb 24 April 2006 c 388

In winding up the debate for the Conservatives, Mark Francois argued there was a good case for retaining the HCI, and that it was feasible to prevent the scheme from being abused:

The DTI was also particularly keen to foster the HCI scheme. In fact, it was still promoting the scheme on its departmental website when the Treasury announced that the scheme had been scrapped. The DTI said—this has since been removed from the website—that

"The real beauty of HCI schemes is that they have the potential to improve performance in almost every area of the organisation. As well as traditional drivers—reducing costs, increasing profitability—they can also contribute to more recent imperatives such as corporate responsibility, individual learning and workplace development".

That is a good argument for keeping the scheme ... We believe that the scheme is worth while and that the Government should retain it, not abolish it, and we will table amendments to that effect. If the Government still argue that there have been abuses of the scheme that need to be addressed, we are genuinely willing to work with them, with the industry and with users to try to produce a revised framework that would allow users to continue to benefit while protecting revenue appropriately.<sup>45</sup>

However, in response the Paymaster General, Dawn Primarolo, simply underlined the point that removing the exemption would not result in a tax charge for machines used exclusively for the employee's work:

Many Members referred to the home computer initiative and to clause 61, which removes the tax exemption. With effect from 6 April, a tax charge will arise on computer equipment made available by employers to their employees for private use. It will not, however, change the position for an employee who has been provided with computer equipment solely for business purposes and where private use is not significant.<sup>46</sup>

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<sup>45</sup> HC Deb 24 April 2006 c 456

<sup>46</sup> HC Deb 24 April 2006 c 461