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HMRC

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Our ref:

Dear [REDACTED]

BEXLEY SERVICES AND THE MPs' EXPENSES SCHEME

Thank you for your email of 20 July 2011 to [REDACTED] regarding the media reports on Bexley Services.

In our previous meetings we have discussed the differences between expenses incurred by MPs, and expenses incurred by general employees. One of the distinctions which sets MPs apart from regular employees is that they are in fact office holders, *not employees*, a distinction worth noting when it comes to examining the expenses they incur. MPs operate their own offices and employ their own staff, which makes them akin to owners of small businesses. The expenses which MPs incur wholly, exclusively and necessarily in the performance of their parliamentary duties are thus somewhat different from those of regular employees. This distinction is partially acknowledged under sections 292 and 293 ITEPA 2003 which recognises travel and overnight expenses as necessary expenses. IPSA has sought to address the gaps in the legislation for other expenses with HMRC through various arrangements, including dispensations and, where necessary, PAYE Settlement Agreements.

Several weeks ago the Mail on Sunday reported that Bexley Services Ltd was offering an 'expenses management service' to MPs. This service, which appears to be essentially book-keeping, would be a claimable expense under all Editions of the MPs' Expenses Scheme. Depending on the nature of the service provided it is claimable under 'professional services' from the GAE/OCE budgets, or as a 'bought-in service' under the Staffing budget. Book keeping and expense entry duties may of course be performed by regular, salaried staff and that would be part of their duties in supporting the MP in performance of their parliamentary functions. Having performed a thorough search of our systems, we have found no immediate records of any MP claiming for Bexley Services for the financial year 2010-11, or this year so far. When we have met in the past and discussed the IPSA expense categories, we have noted that 'professional services' could include, for example, legal advice or accountancy advice, where it is necessary for MPs to carry out their parliamentary functions, similar to services required by small businesses. We understand the relevant dispensations which have been granted therefore cover these services.

It follows therefore that we do not consider that IPSA is making tax free reimbursements under s336 for professional services. The information that we have provided to MPs for their P11Ds does not, therefore, include professional services.

Finally, you ask whether IPSA makes any claims which HMRC would consider a tax free reimbursement under S336. We have discussed at some length all of the expenses claimable under the 2nd Edition of the Scheme with HMRC, and the subsequent changes which now appear in the 3rd Edition with your Permanent Secretary Dave Hartnett. We have operated on the understanding that the items now being covered by the PAYE Settlement Agreements (including hospitality payments, children's travel, and late night taxi before 1am), and capital purchases for the office for which the tax-free allowance exists, were the *only* items which HMRC considers to be taxable, following the granting of the dispensations. We have prepared P11Ds and communicated with MPs on the basis of this position, as agreed with HMRC. If your position has changed since our recent discussions, I would be grateful if you could set out your concerns (and the reasons for them) in detail.

Yours sincerely,

John Sills
Director of Policy