

*These notes refer to the Income Tax (Earnings and Pensions)  
Act 2003 (c.1) which received Royal Assent on 6th March 2003*

# INCOME TAX (EARNINGS AND PENSIONS) ACT 2003

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## EXPLANATORY NOTES

### COMMENTARY ON SECTIONS

#### *Example 3*

**£150(Pe) – £50(E) = £100**

#### **Part 4: Employment income: exemptions**

##### *Chapter 11: Miscellaneous exemptions*

##### *Section 313: Repairs and alterations to living accommodation*

1319. This section derives from section 155(3) of ICTA. It only applies in the case of provided accommodation which falls within Chapter 5 of Part 3.
1320. In the case of alteration and additions to the property within *subsection (2)(a)*, the cost would sometimes result in an increase in the cash equivalent under Chapter 5 of Part 3. In order to prevent a double charge to tax it is necessary to exempt the cost of the alterations and additions which fall through to Chapter 10 of Part 3 because the cost of provision was “not otherwise chargeable to tax”.
1321. The second part of this exemption at *subsection (2)(b)* refers to landlord’s repairs, the definition of which prevents it extending to tenant’s repairs, or improvements disguised as repairs.

##### *Section 314: Council tax etc. paid for certain living accommodation*

1322. This section derives from section 145(4) of ICTA. Without this section, a tax liability could still arise if charges in connection with the property were paid (or the cost reimbursed) by the employer.
1323. *Subsection (1)* applies the section when certain exceptions from a charge on living accommodation apply.
1324. *Subsection (2)* applies the exemption to a fuller and more updated description of domestic property charges: “council tax or rates, water or sewerage charges”, in line with Inland Revenue practice. This is a minor change to the law. See *Change 75* in Annex 1.

##### *Section 315: Limited exemption for expenses connected with certain living accommodation*

1325. This section limits the amount charged to tax in respect of certain expenditure (or reimbursement of expenditure by the employee) in connection with living accommodation. It derives from section 163 of ICTA. It applies to all employees

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whether in excluded employment or not whereas section 163 applies only to those employments within Chapter 2 of Part 5 of ICTA. This is a minor change in the law. See *Change 76* in Annex 1.

1326. *Subsections (2) and (3)* set out the conditions which must be satisfied for the exemption to apply.
1327. *Subsection (4)* provides a formula to calculate the amount to which the exemption is applied. The following example shows how the formula works, using NE, DA, DE and SMG as defined in the section.
1328. Assume an employee's earnings are £10,000 a year (and there are no deductions) and no sums made good. The formula works to give the right pro-rata result for each of the following circumstances:
- Employment held and accommodation provided for whole year