All parts of Government encourage volunteering. It is a good thing from many perspectives, but there are lots of things to think about for both the volunteer and the body taking on the volunteer. One important factor to consider is how payments (which can be any type of cash payment, reward or benefit in kind, like a voucher) made to a volunteer are treated for income tax and National Insurance (NIC) purposes.

In this factsheet, we look at the rules and give some guidance on how payments to volunteers might be treated. This is a complex area of the system – it is not possible for a short factsheet to cover all the rules. Each parent carer forum should take specific advice to ensure all tax and NIC obligations are being met, particularly given our understanding that each forum may be set up in a different way and, indeed, some may be running under the umbrella of another body, e.g. a local authority or other voluntary group.

For the purpose of this factsheet we have assumed that the parent carer forum is the body making any payments to volunteers and is, under general principles, the body with any potential ‘employer’ obligations. If this assumption is incorrect, then you will need to seek further help. See the end of this factsheet for information on how to contact a professional tax adviser.

### The basics

If a volunteer receives no payment at all in connection with the voluntary work, the question of tax and NIC does not arise. However, volunteers normally expect expenses to be reimbursed to them and indeed this is recognised as good practice. Some organisations may also like to give volunteers a small payment to say thank you for the time spent.

If you do reimburse expenses to volunteers or give them some other payment, it is vital to understand that while charitable bodies may be exempt from some taxes, they are not exempt from employer obligations such as having to deduct tax and NIC from certain payments under the Pay As You Earn (PAYE) system. Expenses, in particular, must be dealt with absolutely correctly otherwise they may be taxable/NICable and cause unexpected issues for both the volunteer and the organisation.

### Reimbursement of expenses incurred by volunteers

If a volunteer incurs expenses in carrying out the voluntary work, and is either paid in advance or reimbursed for those expenses (and nothing more), the expenses or reimbursements are not taxable or subject to NIC and do not need to be reported to HM Revenue & Customs (HMRC) by you. These same rules apply for expenses that put the volunteer in the position to carry out the voluntary work in the first place – e.g. the costs of caring for a dependent whilst volunteering. You can find HMRC’s guidance on volunteer expenses here: [https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim71100](https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim71100)

Expenses that you might reimburse include: food and drink consumed while volunteering; travel undertaken in the course of volunteering, including to/from the place of volunteering; care of dependants while volunteering; equipment or protective/special clothing if required for the performance of the volunteer services; and sundries, e.g. phone calls or postage.
Note that expenses, even if actually incurred, should be reimbursed at a ‘reasonable’ level. Reasonableness is a concept that depends on the circumstances. You may want to use HMRC’s scale rates to cover volunteer’s travel and subsistence costs (more on these below), as these are accepted by HMRC as being ‘reasonable’ and should not, of themselves, trigger any argument from HMRC that there is a tax liability.

It is advisable that you have a proper system in place for recording and paying or reimbursing expenses. An expenses claim form should be drawn up detailing the expenses and you should, as far as possible, ask for and keep receipts from each volunteer. You should also not pay blanket allowances without checking that the individuals have incurred the expenditure intended to be covered by the allowance. If you do, there may be tax and NIC implications (more on this below).

There are statutory rates of mileage reimbursement that you can use to pay volunteers who have used their own car for volunteering. Provided there is no profit element (i.e. no excess is paid), they are not subject to PAYE tax or NIC and do not need to be reported to HMRC. You should, however, keep good records of any such payments made.

### Scale rates

<table>
<thead>
<tr>
<th>Vehicle</th>
<th>Mileage in tax year</th>
<th>Rate per mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cars and Vans</td>
<td>Up to 10,000 miles</td>
<td>45p</td>
</tr>
<tr>
<td></td>
<td>Excess over 10,000 miles</td>
<td>25p</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>No restriction</td>
<td>24p</td>
</tr>
<tr>
<td>Bicycles</td>
<td>No restriction</td>
<td>20p</td>
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HMRC also have subsistence rates. For example, a rate of up to £5.00 may be paid where a worker has been away from his home /normal place of work for a period of at least five hours and has incurred a cost on a meal. You can find out more on GOV.UK: [https://www.gov.uk/expenses-and-benefits-business-travel-mileage](https://www.gov.uk/expenses-and-benefits-business-travel-mileage)

Example: Halid attends a steering group meeting and drives 5 miles there and 5 miles back in his own car. He can be reimbursed £4.50 without any tax or NIC implications (45p x 10 miles).

The mileage rate covers the costs of running and maintaining the vehicle, such as fuel, oil, servicing, repairs, insurance, vehicle excise duty and MOT. The rate also covers depreciation of the vehicle. When volunteers carry passengers in their volunteering, they can claim an additional 5p per passenger on top of the authorised mileage allowance.

A volunteer may need to arrange child-care so that they can volunteer for you. If a volunteer incurs expenses for this, you may wish to meet these costs up to a reasonable level (care costs may be significant and what is ‘reasonable’ is open to a certain amount of interpretation as noted previously). A registered childminder or playgroup should be able to supply a volunteer with a receipt which you can use to verify expenditure.

However, in some cases, registered child care may not be available or some volunteers may choose to have their child looked after by friends or family. This situation is less clear cut in terms of any money paid to friends or family for looking after their child because there will be no receipt available to verify expenditure. To cater for such instances, you may want to have a section on your expenses claim form which deals specifically with caring expenses. The claim form should seek information on: the name, address and age of the person providing cover for the volunteer; their relationship to the person in need of care; the number of hours spent looking after the person; the amount of money paid to the person looking after the person in need of care and it should be signed by the person providing cover, by the volunteer and the volunteer involving organisation. If you generally have good processes and relationships in place with your volunteers, it is probably reasonable for you to assume that when a volunteer fills in and signs such an expense claim, the expenses are legitimate.
Can a volunteer waive their expenses?

It is often the case that volunteers offered reimbursement of expenses from a charity will waive those expenses or wish to gift them back to the charity. The most tax-efficient way of doing this is for the volunteer to receive the expense payment in question and then to gift it back to you as a Gift Aid donation. For Gift Aid to apply there must be an actual payment donated to the charity; a waiver of expenses does not involve a payment and so would not count. HMRC recommend that for audit purposes at least one of the payments is made by cheque and clearly and properly recorded. You can find more information on GOV.UK: https://www.gov.uk/guidance/gift-aid-what-donations-charities-and-cascs-can-claim-on#expenses-paid-to-volunteers

It is important to note that to use the Gift Aid scheme, the volunteers must have paid enough tax in the year to cover the tax on the gift. If they have not, HMRC may decide to recover the tax from the volunteer if the charity reclaims tax that has not been paid. The volunteer may therefore find themselves faced with a tax bill as a reward for their generosity!

Payments to volunteers over and above actual expenses

If expenses are paid that do more than reimburse the costs incurred, or are at scale rates that cannot reasonably be regarded as merely a reimbursement of what they spend, the voluntary workers may be seen as receiving reward for their work or services. This could happen, for example, where you give a volunteer travel expenses for commuting to the volunteering centre in circumstances where they have in fact walked to the volunteering centre.

In such cases – or where other payments are made – for example where you pay a volunteer for their time to attend a meeting, the payments will nearly always count as taxable income. The exact mechanism for paying anything over to HMRC will depend on whether the volunteer is classed as an employee/office holder or not. If they are, then the payments will be subject to tax and NIC as ‘employment income’ and you may have to operate PAYE.

As the body making the payment it is your responsibility to carefully consider whether there is any element of employment income. We look at this in more detail in the next section. If you do not deduct tax and NIC under PAYE because you think your volunteer is not an employee or an office holder but HMRC later disagree with this, you could find that you have to pay over the unpaid tax and NIC to HMRC and also a penalty.

Employment income – the main principles

Where a volunteer receives excessive reimbursed expenses and/or receives payments for actual work or services, then any such payments will be treated as employment income if it can be shown that:

- the individual holds an office or employment
- there are earnings from that office or employment

In any such cases, you will become the ‘employer’ of the individual concerned which means that you have various responsibilities, such as operating PAYE on certain payments made to them and giving them various rights and protections under employment law (more on these later).

It is worth noting that if you become the individual’s employer, tax law will take a strange approach when it comes to any reimbursed expenses, because any such payments may well constitute taxable income (in the case of excessively reimbursed expenses, these will probably be taxable in their entirety rather than just the surplus being taxable). This is because the employment income rules for ‘allowable’ expenses are very tightly drawn – they must be wholly, exclusively, necessarily incurred in performing one’s duties. Things like lunch, travel between home and work and care costs are generally not allowable expenses, even though they are allowable if reimbursing volunteers who do not hold an office or employment.

Example: Jenny is given £10 for lunch when in fact she only spends £7 (and does not reimburse the remainder) – if Jenny holds an office or employment, the full £10, not just the £3, will be taxable/NICable on her via the PAYE system.
Things like travel while working (as opposed to getting to work) are usually allowable expenses under the employment income rules which means that employers can usually reimburse any such expenses on a tax/NIC free basis and do not need to tell HMRC about them. You can find more information about allowable expenses on GOV.UK: [https://www.gov.uk/employer-reporting-expenses-benefits](https://www.gov.uk/employer-reporting-expenses-benefits)

**Is there an ‘office’ or ‘employment’?**

**Office** – Many clubs, societies, charities and voluntary organisations depend on unpaid individuals filling roles such as chairman, treasurer and secretary. Such positions usually have a continued existence over time and in most cases, will be seen as ‘offices’ for the purposes of tax law.

**Employment** – An individual is likely to have a 'contract of service' and so be an ‘employee’ if most of the following statements apply to them:

- The organisation can tell them what work to do, as well as how, where and when to do it
- The individual has to do their work themselves
- The organisation can move the worker from task to task
- The individual is contracted to work a set number of hours
- They get a regular wage or salary, even if there is no work available

You will need to carefully consider each of the factors above and come to an overall decision based on the relationship you have with the individual.

If an individual volunteers on a regular basis, carries out specified duties and is subject to some level of supervision and control, a number of the hallmarks of employment are present. However, there could be other factors pointing away from employment. For example, they may be free to turn down assignments and can leave when they wish. Bear in mind that an employment relationship need not be set out in a written contract; rather, it can be verbal, or inferred from the circumstances.

**What help is there to determine whether there is an ‘employment’?**

You can find more information to help you determine whether there is an employment on the Low Incomes Tax Reform Group’s (LITRG) specialist employer website: [https://disabilitytaxguide.org.uk/tax-status/tax-employment-status/](https://disabilitytaxguide.org.uk/tax-status/tax-employment-status/). Even though this website is aimed at a certain type of employer (a care and support employer) the information and guidance that you can find on there is typically applicable to employers much more widely.

You can also contact the HMRC customer service team to request a written opinion about the situation. Their contact details are on the GOV.UK website: [https://www.gov.uk/government/organisations/hm-revenue-customs/contact/status-customer-service-team](https://www.gov.uk/government/organisations/hm-revenue-customs/contact/status-customer-service-team).

**What is Pay As You Earn (PAYE)?**

PAYE is the system that HMRC use to collect income tax and NIC from office holders and employees. If your volunteer holds an office or employment with you, it is not acceptable for you to make a gross payment and simply advise the recipient to declare the sum paid to HMRC themselves.

Under PAYE, you are responsible for calculating and deducting the tax and NIC from most payments made to the individual before paying them the balance. You will have to carefully record and report information about the individual’s payments and deductions to HMRC at various intervals as well as pay the amounts deducted over to HMRC, together with any employer's NIC. You can find more information about PAYE on LITRG’s specialist website: [https://disabilitytaxguide.org.uk/Setting-things-up](https://disabilitytaxguide.org.uk/Setting-things-up)
You will need to register as an employer with HMRC so that a PAYE scheme can be set up UNLESS the individual (or all of them if there are more than one) earns less than the National Insurance lower limit of £113 per week (in 2017/18) and receives no non-cash benefits from you, does not have another job or any other taxable income. However, you may need to keep some basic information about such individuals including how much you pay them. You will also need to give them payslips.

Example: You pay your volunteer, Wim, £20 each time he attends a steering group meeting (he does this regularly). Although £20 is clearly under the £113 per week threshold, Wim has another job, so you need to register as an employer with HMRC and operate tax and NIC in line with the PAYE tax and NIC rules and rates. You can find out more about these on the LITRG’s specialist website: https://disabilitytaxguide.org.uk/paying-wages.

What if the volunteer is not an employee/office holder?

If they are not an employee or office holder, then there are no PAYE issues for you – instead the volunteer will probably need to report the expenses to HMRC as ‘miscellaneous income’. (Contrary to popular belief, payments which are not employment income will not automatically be classed as ‘self-employment’ income – unless the volunteer’s activity is regular, organised and is done with a view to generating a profit. If this is the case, then they can find out more about their obligations on our website: https://www.litrg.org.uk/tax-guides/self-employment)

Example: Josie is asked to go to a one-off meeting with another voluntary organisation to promote the work of the parent carer forum. She is paid £30 for this. If Josie is not an office holder or employee, then the £30 is taxable on her as miscellaneous income. However, if this, when added to any other such income in the tax year, is under £1,000, then there is no tax to pay and nothing for her to report to HMRC.

Volunteers who receive miscellaneous income may be interested to know that from 6 April 2017, they are allowed to earn £1,000 of miscellaneous income before there are any tax or reporting consequences. They can find out more here: https://www.gov.uk/guidance/tax-free-allowances-on-property-and-trading-income. There is no National Insurance for a volunteer to pay on ‘miscellaneous income’.

If your volunteers require more information on miscellaneous income, you could direct them to HMRC’s income tax helpline on 0300 200 3300 or their manual: https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim100000

Saying thank you

Small gifts in kind to individual volunteers (who are not office holders or employees) as a ‘thank you’ (e.g. vouchers, a Christmas party, tickets to events, chocolates) should not cause too many problems from a tax/NIC perspective as long as the cost is reasonable in proportion to your forum’s total income and the volunteer’s contribution to your work.

Such gifts should be genuine gifts – if there is a sense that they expected or are due a reward for work or services performed then they will probably become taxable on the volunteer – either as employment income or as miscellaneous income (the general rule for miscellaneous income is that the amount taxable on them is the cash equivalent value of what is provided – if it cannot be converted into money then there is an argument that it is not taxable).
Where there is employment income, there are benefit in kind rules that may apply to determine the value of what is provided. There are special rules on vouchers for example, and also on Christmas parties and ‘trivial benefits’ (which can often be provided tax free). You can find more information in HMRC’s booklet: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/644171/480-sept201397-expenses-benefit-tax-guide.pdf

Honorarium – an honorarium is a cash payment made to an ‘office holder’ (see earlier) for performing a service in circumstances where no other payment will be given. Payment is primarily made for two reasons, ‘to say thank you’ in recognition of the valuable service given and to ensure that a particular role is filled, and/or the duties covered. Though the amounts may be very small, honoraria are always subject to tax and NIC under PAYE.

Minimum Wage – Persons defined in law as ‘workers’ are entitled to be paid the NMW unless a specific exemption applies. A person is a ‘worker’ if they are doing work personally for someone else under a contract (this does not need to be written, it can be an implied or oral contract). Specifically, volunteers who are only reimbursed expenses they incur are not entitled to the minimum wage. However, in situations where expenses go beyond those actually incurred or where other payments are made, and the circumstances are such that the volunteer is a ‘worker’, then they may be entitled to the NMW. Those working under a ‘contract of service’ (i.e. employees) are ‘workers’. Those who do not meet the test of employee but who have a volunteer agreement in place may also be ‘workers’. For employment law purposes, office holders are not ‘workers’. You can find out more about volunteers and the NMW on GOV.UK: https://www.gov.uk/volunteering/pay-and-expenses

Employment rights – Individuals who are ‘employees’ or ‘workers’ may get certain other employment rights too (some of them dependent on their length of service), including holiday pay and a workplace pension. You can find more information on GOV.UK: https://www.gov.uk/employment-status

Welfare benefits – The rule of thumb is that volunteering will not affect a person’s entitlement to welfare benefits such as Carer’s Allowance or tax credits as long as they are only receiving the reimbursement of genuine out of pocket expenses. In any other event, benefits or tax credits could be affected and while this is the responsibility of the individual, you could advise them to talk to their benefits office/HMRC to find out exactly what impact volunteering will have – each individual case will be different.

Further information

For help with NMW and other employment law issues, you could try the Advisory, Conciliation and Arbitration Service (ACAS): www.acas.org.uk. They have expertise on employment matters and provide a Helpline that deals with issues relating to employment.

If you need to consult a professional tax adviser, you can find one who specialises in charities and/or employer matters by using the Association of Taxation Technician’s ‘find a technician’ tool (https://core.att.org.uk/) or on the Chartered Institute of Taxation’s website: http://core.tax.org.uk/

If there is doubt about the tax treatment of reimbursed expenses or other payments made to volunteers, you could seek advice from HMRC – they have an ‘Employer Helpline manned by specialists and they can be contacted as follows: https://www.gov.uk/government/organisations/hm-revenue-customs/contact/employer-enquiries

For more general information on the tax system and charities, see HMRC’s guidance note ‘Charities: detailed guidance notes on how the tax system operates’: https://www.gov.uk/government/publications/charities-detailed-guidance-notes

This factsheet is intended to provide general information only and does not constitute advice. Before taking any action, you should get appropriate immigration, benefit or tax advice from a professional adviser which is based on your particular circumstances. We have done our best to ensure that the information in this factsheet is up to date as of December 2017. You can read our full disclaimer on our website: www.litrg.org.uk/legal.

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