

## Taxation Issues in Corporatewear— Nick Morley, March 2009

### Introduction

The use of logos and labels insisted upon by HMRC can limit the reusability of a corporatewear garment at end-of-life and the tax is viewed by many in the sector as somewhat out of date and a major barrier to reuse.

This project will review the current guidelines and research suitable alternatives, if necessary, to the taxation of corporatewear.

### Current Status

The project began by trying to correctly understand the positions of both the corporatewear users and HM Revenue and Customs by interviewing a Corporatewear, partner in this project and the relevant policy lead in HMRC. There then followed an iterative discussion with HMRC about various ideas that might make the situation simpler and easier as regards reuse of clothing.

Trends in corporatewear are generally towards uniforms that are less recognizable as such. In the financial sector there tends to be provided a “wardrobe” rather than an identical look for everyone. This also makes allowance for different cultures, shapes and sexes. The idea of a single “uniform” is a somewhat outdated concept in certain business sectors. Although embroidered labels or logos can be used for blouses etc, this does in certain occupations undermine the image that the businesses wish to project, hence the development of the “tax tab” approach, which is less undermining of image. Certain items in the corporate colour but without logo are not tagged (e.g. ties) and then simply a payment is made to the Revenue.

A number of textile recyclers contacted by one end user were not prepared to de-tag corporate clothing, presumably due to cost issues. Some clothing recyclers send out clothing overseas with tax tabs on where these were felt to be sufficiently subtle. The general approach was to “blend away” corporatewear wherever possible, and the logos or tax tabs formed just an additional reason to keep the levels of blending low.

Hence improving environmental outcomes brings conflict with HMRC guidance, which can be summarized as follows: HMRC are largely concerned with people who claim private clothing as a business expense.

Detailed guidance is at <http://www.hmrc.gov.uk/manuals/eimanual/eim32450.htm>

Uniforms are an exemption, but must be recognizable as a uniform, with specific identification not just corporate colours. The logo or name should be “prominent and permanent” that identifies it as a uniform. A “tax tab” is a tax adviser’s idea (not HMRC) of a label that satisfies HMRC. A major issue for corporatewear users is that the interpretation of the regulations is left to different tax offices, and therefore what is believed to be “prominent and permanent” may vary.

### Possible Proposals

Ideally proposals were generated that might meet HMRC’s need to avoid individuals claiming private clothing as a business expense with the need to increase reuse and recycling rates at end of life. The RECO project has already looked at technological solutions to the problem and has focused on microwave heating as a possible solution, although this is unproven at a demonstration stage and costs are as-yet unknown.

Possible other ideas generated internally by the CRR were:

1. Exempt uniforms where a minimum number of identical units had been issued per year by a company. If the number exceeded the minimum it would be a “uniform”.
2. If a company retains ownership of the uniform and can demonstrate that almost all (>90%) are returned to the company at the end of life for re-use or recycling, then the benefit may be deemed “trivial” (EIM 32478) and P11d reporting and resulting tax will be waived.



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HMRC's response was that the volume argument was not valid – the regulations applied to all sizes of business. The trivial benefit argument depends on facts and circumstances, and they could not give a blanket exemption. However (and this does not constitute tax advice) it might be useful where there were bright colours etc and the market value of the clothing to the consumer was low.

3. One further proposal was to produce a “rogue’s gallery” of photographs of clothing that either did or did not meet tax office approval as having “prominent and permanent” marking. Such a gallery could be published on the project website. This might help to address the issue of inconsistency of approach between tax offices.

However, companies that had received ‘favourable’ treatment from their tax offices may be reluctant to contribute in case the acceptability of their clothing was then reviewed.

### Recommendations

Consider use of the “trivial benefit” argument according to EIM 32478 for corporate clothing, particularly low value items. This will require the company to retain ownership and to demonstrate a high level of return. It is also subject to individual tax advice for companies.

Inform the CRR whether the partners are interested in progressing the “rogue’s gallery” idea.

