

Employee benefits



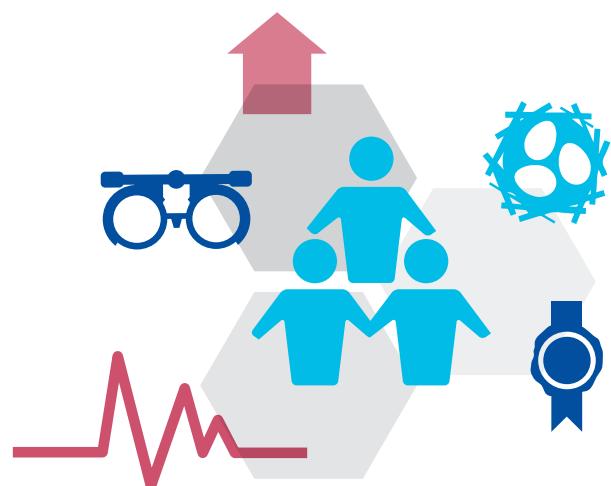


Employee benefits

Today the remuneration of many directors and employees comprises a package of salary and benefits. Essentially, two tests must be applied in determining the tax implications of any benefit.

- Is the benefit taxable?
- If the benefit is taxable, what is its taxable value?

In this factsheet, we give guidance on some of the main benefit in kind rules and indicate some common types of benefits. It is not intended to be an exhaustive guide and any decisions should be supported by professional advice appropriate to your personal circumstances.



Setting the scene

All earnings of an office or employment are taxable. Where they are not in cash it becomes necessary to put a value on them to be able to report them as a benefit. As a general rule, unless the benefit can be converted into cash, there is no taxable benefit. Where it is convertible into cash, the taxable amount is the resale value.

To prevent avoidance, additional legislation charges certain other benefits to tax. The detailed rules are complex. We can advise on structuring remuneration packages, including benefits, in a tax-efficient way.

National Insurance

In general, employees' national insurance (NIC) is not due on benefits except vouchers, stocks and shares, the discharge of an employee's personal liability, and benefits provided by way of 'readily convertible' assets.

Most benefits are subject to Class 1A NIC payable by the employer. As this amounts to 13.8% of the taxable value of the benefit, you always need to consider the tax efficiency of providing benefits.

Reporting

Employers are required to notify HMRC of benefits provided to directors and employees by completing forms P11D annually by the 6th of July. Penalties can apply where the forms are submitted late or are incorrect. The full amount of any benefit must be reported on this form, as well as any amount "made good" by the employee.





Taxable benefits

A statutory exemption applies for trivial benefits in kind. The exemption sets out a number of conditions that must be met for a benefit to be exempt which are that the:

- cost of providing the benefit does not exceed £50
- benefit is not cash or a cash voucher
- benefit is not provided under salary sacrifice arrangements or any other contractual obligation
- benefit is not provided in recognition of particular services performed by the employee in the course of the employment or in anticipation of such

In addition, special rules apply to tax other benefits received by directors and office holders of close companies which cap the trivial benefit value allowable at £300 per annum.

Where trivial taxable benefits are provided on a frequent and/or regular basis, HMRC may contend that this creates a "legitimate expectation". That is to say, that where an employee can reasonably expect to receive trivial benefits on a regular and/or frequent basis, this is akin to a contractual entitlement, and would therefore not qualify to be a trivial benefit.

Common types of non-trivial taxable benefits provided are detailed below.

Non-trivial taxable benefit	
Employer provided cars	This is probably the most common benefit and the taxable amount will generally be based on a range of 2% - 37% of the manufacturer's list price (including accessories) of the car. The taxable benefit depends upon the carbon dioxide emissions of the car. There are reductions for unavailability of the car and where the employee makes a contribution towards the cost of the car. Low emission vehicles (less than 75g/Kg of CO2 emissions) have the lowest tax rate due on them (currently 2%). Please talk to us for further details on the application of the rules.
Private fuel	Private home phone bills, including rental charges, which are paid for by the employer will be taxed as a benefit. Where reimbursements of these types of non-tax exempt payments are made, they should be subject to PAYE through the payroll.
Van	The scale benefit charge for the unrestricted use of an employer provided van is £3,960 for 2023/24. Where the restricted private use condition is met no benefit arises. Where an employer also provides fuel for unrestricted private use an additional fuel charge of £757 for 2023/24 applies. Please do get in touch if you would like to ensure that employee van use meets the restricted private use condition.
Cheap or interest free loans	No benefit will be taxed where the loan does not exceed £10,000.
Medical insurance	The cost of providing medical insurance is a taxable benefit.
Use of company assets	An annual benefit is taxed where employees have the private use of company assets. The annual benefit amounts to 20% of the asset's market value when first made available to any employee. Insignificant private use of certain assets is not taxable.
Phones	Private home phone bills, including rental charges, which are paid for by the employer will be taxed as a benefit. Where reimbursements of these types of non-tax exempt payments are made, they should be subject to PAYE through the payroll.

Non taxable benefits

Certain benefits are not taxable. The most important ones are:

- retirement benefits, which are paid by an employer into a registered pension scheme
- meals provided in a staff canteen
- drinks and light refreshments at work
- parking provided at or near an employee's place of work
- workplace nursery places provided for the children of employees
- certain other employer-supported childcare. Any formal registered childcare or approved home childcare contracted for by the employer, such as a local nursery, out-of-school club, or childminder, may be covered by this exemption
- in-house sports facilities
- payments for additional household costs incurred by an employee who works at home. The employee must work at home because the duties of the employment dictate, and not out of choice. This will therefore exclude hybrid working.
- removal and relocation expenses up to a maximum of £8,000 per move
- the provision of a mobile phone or vouchers to make available a mobile phone (limited to one phone per employee only)
- annual social functions for employees provided the total cost of all events in a tax year is less than £150 per head
- trivial benefits up to £50 per benefit, or £300 per annum in close company situations.





Benchmark rates

Benchmark rates for travel and subsistence refer to the rates that employers can use to reimburse their employees for travel and subsistence expenses without the need to obtain receipts or other supporting documentation. These rates are set by HM Revenue and Customs (HMRC) and are updated periodically.

The current benchmark rates for subsistence expenses are £5 for over 5 hours travelling, £10 for over 10 hours travelling, and £25 for over 15 hours travelling (and still out at 8pm), and they apply to all UK employees who are required to work away from their normal place of work or who are working on a temporary assignment. Where a scale rate of £5 or £10 is paid and the qualifying journey in respect of which it is paid lasts beyond 8pm a supplementary rate of £10 can be paid to cover the additional expenses necessarily incurred as a result of working late.

A meal is defined as a combination of food and drink and would take a normal dictionary meaning. Where employees are required to start early or finish late on a regular basis, the over 5 hour and 10 hour rate, whichever is applicable, can be paid provided that all the other qualifying conditions are satisfied.

These rates can be paid tax-free and without the need for supporting documentation, provided that the employee has incurred a qualifying expense and has spent at least the amount of the benchmark rate.

The benchmark rates for travel expenses cover mileage and overnight accommodation costs. For mileage, the rates are currently 45p per mile for the first 10,000 miles in a tax year and 25p per mile for any additional miles.

It is important to note that these rates are not mandatory, and employers are free to use their own rates if they wish, provided that they can demonstrate that the rates are accurate and agree a bespoke agreement with HMRC. We can offer more guidance on this on request. Employers can reimburse expenses to any reasonable value on a receipts basis.

Optional remuneration agreements

The government has anti-avoidance rules which limit the income tax and employer NICs advantages where the employee can choose between cash allowances and benefits in kind. An example of this would be an employee choosing between a company car or a car allowance.

The taxable value of benefits in kind where cash has been forgone will be fixed at the higher of the taxable value or the value of the cash forgone. These rules will not affect employer-provided pension saving, employer-provided pensions advice, childcare vouchers, workplace nurseries, Cycle to Work schemes or Ultra-Low Emission Vehicles, with emissions under 75 g/km of CO₂.



How we can help

The taxation of employment benefits is a complex area. Ensuring that you comply with all the administrative obligations and plan in advance to minimise tax liabilities is essential. We can help you with the following:

- ➡ reviewing existing employees' remuneration packages for tax and NIC efficiency ➡ help on applying for bespoke scale rates
- ➡ planning flexible and tax efficient remuneration packages for key employees within your organisation ➡ providing advice and assistance with the completion of your PAYE returns
- ➡ advising on systems for reimbursing expenses and checking procedures ➡ negotiating with HMRC if disagreements arise and in reaching settlements.

We would welcome the opportunity to assist you with any planning and compliance matters so please do contact us.





Steve Ashworth
Tax Director
E: steve.ashworth@pkf-francisclark.co.uk
T: 0117 403 9800



Joe Rowsell
Tax Manager
E: joe.rowsell@pkf-francisclark.co.uk
T: 01823 697125



Pam Edwards
Tax Manager
E: pam.edwards@pkf-francisclark.co.uk
T: 01202 663600