

BENEFITS IN KIND & EXPENSES PAYMENTS

Benefits in kind are assessed on all directors and employees whose salary and benefits combined are £8,500 or more.

Remuneration by way of benefits is often attractive to employees, especially if they are paying the higher rate of income tax, because the benefit may either be tax free or subject to less tax.

A benefit that is not taxable is not automatically exempt from National Insurance Contributions (NICs).

An employer is required to complete form P11D in respect of each employee earning £8,500 or more (including benefits) and all directors. Form P9D is required to record benefits received by other employees. Benefits for NIC purposes must be included on the deductions working sheet column 1A 'earnings on which employee's contributions payable'. (This should not include Class 1A NIC benefits on company cars and car fuel). Comprehensive records should be kept in relation to all benefits and expenses payments.

Non-taxable benefits

There are several benefits that are not normally taxable, even when an employee is within the P11D category. These can be substantial. The most significant are:

- Contributions to approved pension schemes
- Car, motor cycle or bicycle parking facilities at or near the workplace
- Child care facilities
- Compensation/termination payments up to £30,000
- Redundancy counselling services
- Staff canteen and dining facilities (provided they are available to all directors and employees)
- Sports facilities (provided they are available to all directors and employees)
- Removal expenses, subject to Inland Revenue limits
- Long-service awards (provided they are an established practice within the firm or are in the employees' contract) up to specified limits
- Awards under suggestion schemes (but there are restrictions)
- Use of a pool car
- Use of a mobile telephone (the contract must be in the employers name)
- Approved profit sharing and share option schemes
- Use of computer equipment (if available to all directors and employees) up to specified limits
- Use of cycles and cyclist's safety equipment used mainly for journeys between home and work
- Certain bus services for journeys between home and work
- Childcare vouchers or childcare arrangements up to £50 per week.

You could also consider establishing a company pension scheme, which allows your employees to make additional provision for their retirement by paying regular amounts and additional voluntary contributions. The rules for pensions permit employees to contribute up to 15% of their salary to an approved pension scheme.

Small interest free loans

No tax is payable on 'cheap' or interest free loans to employees of up to £5,000.

However if there are made to a director or shareholder then a tax charge at 25% (Section 455, formerly S.419) is levied if the loan is not repaid within 9 months of the end of the financial year it was issued in.

Employee benefits

Tax efficient benefits can assist your company's profitability by ensuring that employees receive the maximum benefit from the money spent on their remuneration, thereby helping to retain key staff members.

Most, but not all, benefits are now caught by tax legislation. Most benefits are also caught for national insurance. Every employer operating PAYE schemes should obtain a copy of *Employer's Further Guide to PAYE and NICs (CWG2)* - and should read it carefully.

Cars

When company cars are used for private motoring, the taxable benefit is normally calculated as a percentage of the list price. If an employee is also provided with fuel for private use in the car he or she is taxed on, a standard scale applies regardless of the value of the fuel used. NICs may be due on the fuel, depending on the method of purchase. Class 1A NICs must also be paid by the employer - see our fact sheet, *National Insurance Planning* - and don't forget that VAT is payable based on a special scale charge for fuel provided for private use (this is not the same as the income tax scale).

Vans

If a company van is made available for private use (except for travel between home and work) a standard taxable benefit applies. This benefit includes fuel for private use.

Expenses payments

These also need to be disclosed on forms P11D. However, the employees then need to put in claims on their own tax returns for expenses incurred in the performance of duties.

Where an employee is not required to complete a tax return, form P87 should be used instead.

How to save yourself work

Most employers can obtain a dispensation in respect of certain expenses payments, which could avoid the need to complete P11D's in some cases. Application can be made at any time. Check with us for details.

Updated: April 2011

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