

Benefits in kind and expenses payments

Benefits in kind are assessed on all directors and employees.

Remuneration by way of benefits is often attractive to employees, especially if they are paying the higher or additional rates 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 (including benefits) and for company directors. Benefits which are treated as pay for NIC purposes must be included on the deductions working sheet column 1A 'earnings on which employee's contributions payable'. (This should not include benefits liable to Class 1A NIC). Comprehensive records should be kept in relation to all benefits and expenses payments.

From 6 April 2016 - Provided the employer does no more than reimburse allowable expenses to employees, these are no longer to be reported on form P11D, and the employee is no longer be required to make a claim for them. Dispensations will also be abolished. As an employer you will need to gain a good understanding of which expenses are allowable, but ultimately this will reduce work both in expense recording, and at the end of the year. You will need a good system of expense claims supported by receipts to justify the payment of expenses tax free.

Employers are able to choose whether to tax benefits in kind, such as the provision of a company car, through the payroll, known as "payrolling benefits". This purely optional, but could mean the end of P11D reporting for some employers, and is likely to be popular over the next few years.

We can tell you more about these changes to help you decide what is the right approach for your business.

Non-taxable benefits

There are several benefits that are not normally taxable. These can be substantial. The most significant are:

- Contributions to registered pension schemes (within limits)
- Car, motor cycle or bicycle parking facilities at or near the workplace
- Child care facilities or vouchers worth up to £55 per week (for basic rate taxpayers)
- Compensation/termination payments up to £30,000
- Welfare counseling services (with restrictions)
- 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)
- Relocation expenses, up to £8,000

- 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 - one mobile phone only per employee where provided
- The provision of representative accommodation (except for certain directors)
- Approved share incentive plans
- 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
- Annual parties or similar functions costing up to £150 per head per annum
- Payments towards household expenses incurred by employees working at home (generally £4 per week)
- Retraining expenses and courses
- Trivial benefits such as Christmas presents up to a value of £50 (excluding cash and vouchers)

Removal expenses

The tax-free limit is currently £8,000 and is available per move as opposed to per tax year. In order to qualify the expenses and/or benefits must normally be paid or provided in the tax year or subsequent year in which the job starts.

National insurance relief is available on all the tax qualifying expenditure, however where the £8,000 is exceeded the whole of the excess is chargeable to Class 1A and thus payable by the employer.

Small interest free loans

No tax is payable on 'cheap' or interest free loans to employees of up to £10,000. If this limit is exceeded at any time during the tax year a benefit in kind is chargeable for the full year, not just the period during which the limit is exceeded. The amount of benefit is calculated as an interest charge of 3% simple.

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. Many of the tax free benefits are now not available in conjunction with "salary sacrifice", where an employee agrees to reduce his pay in return for the provision of the benefit, and those that remain are being carefully considered by HMRC.

Cars

When company cars are made available 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 the same percentage applied to a standard value regardless of the value of the fuel used. Class 1A NICs must also be paid by the employer on the car and fuel benefits. National insurance planning - and don't forget that VAT is payable based on a special scale charge for fuel provided for private use.

Vans

If a company van is made available for private use a standard taxable benefit of £3,170 applies. There is a further benefit of £598 where fuel is provided for private use. If the van is electricity powered the current scale charge is £634.

There is no charge for employees who have to take their van home and are not allowed other private use or the extent of private use is not significant. There is also no charge for use of a commercial vehicle of more than 3.5 tonnes gross weight, so long as the employee's use is not wholly or mainly private.

Expenses payments

These also need to be disclosed on forms P11D up to and including 2015/16. However, the employees then need to put in claims on their own tax returns or tax codes for expenses incurred in the performance of duties. From 6 April 2016 this is abolished in relation to genuine business expenses - see above.

Where an employee is not fully reimbursed for expenses incurred wholly, exclusively and necessarily for their duties of employment, and they are not required to complete a tax return, form P87 (tax relief for expenses of employment) should be used instead.

For further information or advice please phone inBOS on 01543 624 036 or email: accounts@inbos.co.uk.