



**McCleary & Company Ltd.**

Chartered Accountants & Registered Auditors

## Tax and employee benefits

What to expect when providing staff with perks.

Most employers choose to recognise the ongoing commitment made by their members of staff by providing various benefits and rewards.

Whether that's in the form of the Christmas party or it extends to benefits such as a cash bonus or flexitime, it all helps to ensure employees feel valued and motivated.

82% of workers feel motivated after receiving some form of recognition from their employers, according to research by the Rewards and Employee Benefits Association.

While that's all good and well when it comes to looking after your staff, you also need to consider the tax implications of offering attractive employee benefits.

### Taxable benefits

According to the most recent benefit-in-kind statistics published by HMRC in June 2017, 3.69 million people received £7.63 billion-worth of taxable employee benefits in 2014/15.

Employees and directors can receive benefits in kind as part of their employment, but these are not included in their salary.

You may need to report any expenses or benefits you provide to employees, while tax and national insurance contributions (NICs) may need to be paid to HMRC.

### Private health insurance

Providing private medical and dental insurance, regardless of whether the policy covers just the employee or members of the employee's family as well, was the most popular taxable benefit.

2.35 million workers – or 64% of all employees in receipt of benefits in kind – received private medical insurance in 2014/15.



As an employer, you will cover the cost of providing the private health insurance to your workforce and you must pay class 1A (employer-only) NICs at 13.8% on the taxable value.

If you are providing a group policy, as is commonplace, the costs should be split between the number of employees, who will have no NICs to pay.

### Cars

Providing company cars was the second most popular taxable benefit in kind, with 950,000 workers in receipt of almost £4 million-worth of company cars in 2014/15.

Company cars are taxed according to their list price, with the amount of tax you have to pay depending on the emission levels of the car. So, the higher the emissions, the higher the tax you'll have to pay.

The charge is capped at 37% of the list price and, as an employer, you also pay class 1A NICs on the amount charged to tax.

To enjoy a low-cost company car, the trick is to choose a cheaper, lower emission model and there are various incentives for picking an environmentally friendly option.

### Childcare

As an employer that may provide childcare vouchers, it's important to know the difference between the existing voucher scheme and the government's new tax-free childcare scheme.

Childcare vouchers are provided by employers and offer annual savings of up to £933 per parent for those who joined the scheme after 6 April 2011.

Additional taxpayers who joined prior to this date have been able to save up to £1,370 a year.



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The new tax-free childcare scheme offers parents the chance to claim annual savings per child.

The vouchers are worth up to £243 a month, regardless of how many children your employee may have, and are provided through salary sacrifice.

Even though the voucher scheme will be closed to new applicants from April 2018, you will still have ongoing tax, NICs and reporting obligations.

HMRC launched its tax-free childcare scheme in April 2017, offering eligible parents the chance to open an online account where for every £8 deposited, the government will add another £2.

For maximum donations of £8,000, the government top-up will be £2,000 for children under 12 or £4,000 for disabled children under 17.

The tax-free scheme, which was fully rolled out in February 2018, is open to parents who earn more than £120 a week.

However, you won't be eligible if either you or your partner has a taxable income of more than £100,000.

Unlike childcare vouchers, which are only open to employers that offer the scheme, the tax-free scheme is open to all qualifying parents – including the self-employed.

Tax-free childcare will eventually replace the voucher scheme but until then, employees can continue to benefit from the exemption as long as you continue to offer the scheme.

The tax-free amount depends on when the employee joined the scheme and the employee's marginal rate of tax.

For staff who joined your childcare scheme before 6 April 2011, the tax-free amount is £55 per week.

For workers joining on or after that date, it is:

- £55 a week for basic-rate taxpayers
- £28 per week for higher-rate taxpayers
- £25 per week for additional-rate taxpayers.

You can continue to offer childcare vouchers through salary sacrifice without being caught by the new valuation rules.

## Reporting

At the end of the tax year, you may need to inform HMRC of any taxable benefits handed out to staff over the previous 12 months.

Each taxable employee benefit will be calculated differently, depending on what type of expense or benefit you've provided.

Most taxable employee benefits will be deducted through payroll, as long as you've registered with HMRC before the start of the tax year.

Otherwise, you may need to submit the P11D and P11D(b) forms to HMRC for any member of staff who received taxable expenses or benefits.

This helps the Revenue calculate how much you need to pay in class 1A NICs, as well as how much PAYE is due from the employee on the benefit.

This is then normally collected from the employee by adjusting their tax code.

## Non-taxable benefits

Did you know there are 39 non-taxable benefits you can provide to your employees in any given financial year?

Each benefit has certain conditions you need to meet to qualify for the exemption from paying any tax or class 1A NICs.

### Trivial benefits

A trivial benefit exemption was introduced by HMRC in April 2016, meaning the employee benefit will be tax-free as long as it:

- costs less than £50
- is not cash or a voucher that can be exchanged for cash
- is not a reward for services or in any way contractual.

Usually there are no limits as to how many trivial benefits you can provide to employees, although for directors or family members who are members of staff a £300 annual limit applies.

### Socials and parties

Summer or Christmas parties which are open to all employees and cost less than £150 per head are treated as tax-free by HMRC.

The same tax-free threshold of £150 per head applies if you provide multiple parties or social functions for your workers.

For example, if you hold a summer barbeque that costs £50 per employee and a Christmas party costing £60 per employee (£110 in total) both events will be free from tax.

But if the summer barbecue costs £50 per worker and the Christmas party costs £120 per worker (£170 in total), the relief will only apply to one of the events while the other will be liable for tax.

### Others

In addition to trivial benefits and work-related social gatherings, your employees may value several other popular non-taxable benefits.

These include:

Benefit	Conditions (per employee)
Mobile phone	One phone; employer has an ownership contract with telecoms provider
Bicycle and safety gear	Employer must retain ownership
Parking	At or near workplace
Meals and refreshments	Made available to all employees in staff canteen
Eye test; glasses or lenses	Required for working with computer screens
Medical treatment	Up to £500 per tax year as part of a return to work plan
Health screening	One per tax year
Pension contributions	Within annual allowance limits
Relocation expenses	Up to £8,000 per move, if connected to change of job
Work bus	Used only/mainly to transport employees

Contact us about providing benefits in kind.