

# Employment Benefits and Expenses

Employers are required to report to HM Revenue & Customs details of any benefits cash or otherwise provided to their employees by reason of their employment. The taxable benefits are reported on the Form P11d which is due to be filed by 16 July in any given tax year. The taxable benefits are subject to Class 1A National Insurance Contributions charged at 13.8% payable by the employer. The employee is subject to tax on the benefit they receive as part of their employment income.

The taxable benefits received in the previous tax year are usually included in the PAYE coding issued at the beginning of the tax year. This is to ensure employees are not faced with a large tax bill at the end of the tax year. If benefits have been withdrawn in the tax year these may not be reflected in the PAYE coding thereby resulting in overpayments of tax.

Some benefits can now be included in payroll which eliminates the overpayments of tax in the year.

HM Revenue & Customs have detailed guidance on the various benefits and expenses available on their website. As with all technical material the guidance is complex and vast but not always easy to follow.

We have put together a booklet covering the more common benefits and expenses that employers encounter on a day to day basis. Whilst we have tried to simplify it as best as we can it may seem technically challenging in parts.

We have added a table at the end of the booklet as a quick status check for taxable or exempt benefit and consequently the tax and NI charges applicable.

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## 2 INTRODUCTION

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The charge to tax on employment income is divided into 'General Earnings' and 'Specific Employment Income'.

Specific Employment Income examples include:

- Termination Payments
- Share Related income
- Benefits from pension scheme
- Compensation for loss of employment
- Disguised Remuneration

General Earnings are earnings as defined in section 62 of ITEPA 2003. This is the principle tax charge on earnings from an office or employment, it normally takes precedence over any other tax charge. Cash benefits and non- cash benefits that can be converted into cash are also taxed as general earnings and will be subject to tax and Class 1 national insurance.

Benefits or expenses received by employees by reason of their employment are taxable and subject to tax and Class 1a national insurance. The amount of a benefit which is treated as earnings from employment is the cash equivalent value of the benefit.

The general rule is that the value for tax purposes of a benefit or facility provided for an employee or the employee's family or household is the expense incurred by the employer (or the provider of the benefit) in providing the benefit, less the amount made good by the employee to those providing the benefit.

### 2.1 REPORTING REQUIREMENTS

Employers are required to notify HMRC of benefits provided to employees and directors by completing Form P11D annually. Benefits can now be included under payroll and taxed on employees together with their salaries on a monthly basis. A form P11D (b) to return the employers Class 1A NIC liability will need to be filed annually.

There is a late filing penalty of £100 per 50 employees for late or non- filing of the forms charged per month.

## 3 TAXABLE BENEFITS

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Some of the more common benefits provided by employers are listed below.

### 3.1 CAR BENEFIT

Employees are taxed on cars provided by employers for their personal use. The taxable car benefit is calculated using the manufacturer's list price and a percentage based on the CO2 emissions. The higher the emission the higher the percentage.

A separate charge applies where fuel is provided for private journeys (eg home to work) by employers. The taxable benefit is based on a fixed figure (£24,100 for 2019-20) and the percentage based on the CO2 emissions.

### 3.2 VAN BENEFIT

No van benefit arises if the private journeys are insignificant. If the private use is not insignificant the taxable benefit for an employer provided van is £3,430. The taxable benefit for providing private fuel of van is £655. These figures usually change annually.

### 3.3 TELEPHONES

Payment of private telephone bills, line rental or mobile phone bills where the contract is in the employee's name will be a taxable benefit. Any reimbursement for business calls will be exempt.

There will be no taxable benefit if the employer provides only one mobile phone or sim card per employee and the contract is in the employer's name.

### 3.4 MEDICAL INSURANCE & GYM SUBSCRIPTIONS

The cost of providing medical insurance and /or gym memberships is a taxable benefit.

### 3.5 CHEAP OR INTEREST FREE LOANS

For loans in excess of £10,000 (including overdrawn Director's Loan Account) there is a taxable benefit due on the interest calculated at the official rate of interest currently 2.5%. For loans under £10,000 (including overdrawn Director's Loan Account) there will be no taxable benefit.

### 3.6 LIVING ACCOMMODATION

The provision of accommodation gives rise to a taxable benefit generally based on the market rent of the property. There is an exemption where the accommodation is job related.

### 3.7 GIFTS/AWARDS

Any gift of cash to employees will be constituted as earnings and will be subject to tax and national insurance via payroll.

Non cash gifts are taxable on the employee, unless they are exempt under the statutory exemptions such as trivial benefit, long service awards, and suggestion schemes.

Many employers choose to settle the employee's tax liability in respect of these gifts via a PAYE settlement agreement (PSA).

### 3.8 EXPENSES PAYMENTS

All sums paid in respect of expenses to a director or employee, by reason of their employment have to be treated as earnings chargeable to tax as employment income unless:

- they are otherwise chargeable to income tax or
- they are exempt or
- they are paid in respect of expenses incurred in connection with a van or car to which a van or car benefit applies or
- an Inspector has issued a dispensation in respect of them

The provisions of the benefits code (S70 (5) ITEPA 2003) make sure that expenses payments made to an employee by reason of their employment will normally rank as remuneration of the employee to whom they are paid unless they are already taxable or are covered by an exemption.

### 3.9 DEDUCTIBLE EXPENSES

Directors or employees affected by these provisions will not necessarily have to pay tax on the full amount or value of expenses payments or benefits given. They may be entitled to a deduction for certain expenses such as qualifying travel expenses or other expenses incurred 'wholly, exclusively & necessarily' in the performance of the duties of employment.

From 6 April 2016 expenses and benefits that would previously have been within a dispensation may be covered by the exemption for paid or reimbursed expenses.

### 3.10 ROUND SUM ALLOWANCES

A round sum expenses allowance is chargeable on all employees under Section 62 ITEPA 2003 as earnings from employment. So it is not chargeable under Section 70(1). The distinction is important as tax is deducted under PAYE on round sum allowances but not from expenses received under the benefits code.

## 4 EXEMPT BENEFITS

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### 4.1 QUALIFYING TRAVEL EXPENSES

Business travel means travel for which expenses would qualify for deduction if they were incurred by the employee. Broadly, this means travelling expenses which involve 2 types of business journey – journeys which employees:

- have to make in the performance of their duties
- make, to or from a place they have to attend, in the performance of their duties – but not journeys which are ordinary commuting or private travel

Ordinary commuting is travel between the home and permanent work place.

Travel costs can include subsistence and other costs that form an integral part of the cost of the business journey. This could include toll fees, congestion charges, vehicle hire charges, car parking or the cost of temporary accommodation.

Expenses reimbursed by employers for qualifying travel will not be a taxable benefit on the employee.

### 4.2 BUSINESS TRAVEL- EMPLOYEE'S OWN VEHICLE

These rules provide for a maximum amount that can be paid free of tax to employees using their own vehicles for business travel. If employers pay more than the maximum amount, the excess must be added to any other earnings the employee receives in the earnings period in which they make the payment of motoring expenses. The employer should work out any tax due on the employee's total earnings.

For cars and vans the rate to use is HMRC approved mileage rate. This is currently 45p per mile for the first 10,000 business miles and 25p per mile thereafter.

### 4.3 REMOVAL EXPENSES

Where an employee has to move home because of their work, the employee is entitled to tax relief for the first £8,000 of qualifying removal expenses where these are paid or reimbursed by, or on behalf of, the employer.

#### 4.4 TRIVIAL BENEFITS

A statutory exemption came into effect for 2016/17 onwards which enables employers to identify and treat certain low value benefits as 'trivial'. These benefits are then exempt from income tax and do not need to be reported to HMRC.

A benefit is '*trivial*' if:

- it is not cash or a cash voucher;
- the cost of providing the benefit does not exceed £50;
- it is not provided pursuant to salary sacrifice arrangements or any other contractual obligation; and
- it is not provided in recognition of particular services performed by the employee or in anticipation of such services.

Where a member of the family or household of a close company director is also an employee of the company, that individual is subject to a £300 cap in his own right.

#### 4.5 SUBSCRIPTIONS

Where the employer pays on behalf of an employee an annual subscriptions to certain approved professional bodies or learned societies, where the body's activities are relevant to the duties of the employment there will be no taxable benefit.

List of approved bodies for tax relief can be found at:

<https://www.gov.uk/government/publications/professional-bodies-approved-for-tax-relief-list-3/approved-professional-organisations-and-learned-societies>

#### 4.6 CONTRIBUTIONS TO A REGISTERED PENSION SCHEME

Employer contributions into a registered pension scheme will not be a taxable benefit on the employee.

#### 4.7 ANNUAL FUNCTIONS

Annual parties at Christmas or alternative functions of a similar nature, such as an annual dinner dance, which are open to staff generally and which cost no more than £150 per head to provide. Where there's more than one annual function and their total cost per head exceeds £150, only the functions that total £150 or less will not be taxed.

#### **4.8 PARKING SPACES**

The provision of a car or motorcycle parking space, or facilities for parking bicycles at or near the employee's place of work.

#### **4.8 MEALS**

Meals provided in a canteen or light refreshments

#### **4.9 WORKPLACE NURSERIES AND OTHER EMPLOYER-SUPPORTED CHILDCARE**

Employees who are within the Childcare Voucher scheme if entered prior to October 2018 will continue to receive this under the arrangements in place at the time.

For new parents the information on tax free childcare can be found at:

<https://www.gov.uk/tax-free-childcare>

#### **4.10 HEALTH-SCREENING AND MEDICAL CHECK-UPS**

A maximum of one health-screening assessment and one medical check-up in any year.

#### **4.11 REMOVAL AND RELOCATION EXPENSES**

Tax free payments up to £8,000 can be made by employers per move.

## 5 CHECKLIST

The following table lists the Expenses Payments and the tax treatment.

Expenses Payment	Exempt	Taxable	Tax	Class 1 NIC	Class 1A NIC
Round sum allowances		Y	Y	Y	
Cash vouchers		Y	Y	Y	
Employee Liabilities		Y	Y	Y	
Car Benefit		Y	Y		Y
Van Benefit(Significant Private use)		Y	Y		Y
Mobile Phone – Employer contract	Y				
Medical/Gym Subs		Y	Y		Y
Loans>£15,000		Y	Y		Y
Accommodation		Y	Y		Y
Gifts/Awards		Y	Y		Y
Expenses- Non Qualifying		Y	Y	Y	
Business Travel	Y				
HMRC approved mileage	Y				
Removal Expenses	Y				
Trivial Benefits	Y				
Subscriptions	Y				
Car parking Space	Y				
Workplace nurseries	Y				
Pension Contributions	Y				
Annual Functions	Y				
Meals/Canteen	Y				
Pension contributions	Y				
Annual Health Screening	Y				