



LEWIS BROWNLEE

Benefits-in-Kind (P11D)

What does it mean for you?



Lewis Brownlee Chartered Accountants, Auditors & Tax Advisers
Call us on 0330 330 77 77 | LetsTalk@LewisBrownlee.co.uk

**“...BUT IN THIS WORLD
NOTHING CAN BE SAID
TO BE CERTAIN, EXCEPT
DEATH AND TAXES.”**

Benjamin Franklin

WHAT IS A BENEFIT-IN-KIND?

A benefit-in-kind is any benefit that an employee or director receives from their company which is not included in the individual's payslip. Sometimes people refer to these as 'perks' or 'fringe benefits' and contrary to popular belief, these are not all 'tax-free freebies', sadly.

Benefits-in-kind are not all treated in the same way by HM Revenue & Customs. Some are tax-free, but others are taxable. It can be difficult to work out where you stand and that is where we can help. Benefits-in-kind do not just impact on an employee's personal tax, National Insurance Contributions are also payable by the employer in the tax year in which they are given.

Thankfully this booklet will set out the treatment for most of the common benefits, and document which ones are tax-free.

What is a benefit-in-kind?

Put simply a benefit-in-kind can be thought of as use of an asset or service paid for by the company but used by an employee, or director, whether in full or part. The main exception to this is when the asset or service is needed "wholly and exclusively" for the purpose of doing your job.

The main reason why HM Revenue & Customs tax benefits is to stop your employer from replacing part, or all, of your taxable salary with other benefits.

Tax-free benefits-in-kind

There are two main reasons why a benefit would not be taxable.

1. It is considered 'trivial'.
2. It is categorised as 'tax-free' by HM Revenue & Customs

A benefit-in-kind is considered 'trivial' and is not taxed if it meets all of the following:

- is £50 or less in value, inclusive of VAT (where applicable);
- not cash or a cash voucher (e.g. a gift card that can be used as cash);
- not a reward or bonus for doing well in your job;
- not part of your employment contract; and
- not a 'salary sacrifice'.

TAX FREE BENEFITS-IN-KIND

As mentioned on the previous page, it is not all bad news. HM Revenue & Customs allow some benefits-in-kind to be tax-free, when appropriate conditions are met.

These include:

- contributions paid by your employer into an approved occupational or personal pension scheme for you as an employee. Nearly all schemes are included;
- cheap or free canteen meals, if these are provided for all employees, even if separate facilities are provided for different groups of employees;
- one mobile phone, or SIM card, for each employee, provided the contract is in the employers name;
- in-house sports facilities;
- counselling services to redundant employees and welfare counselling;
- certain childcare arrangements;
- works buses, or subsidies to public bus services, to get employees to and from work;
- bicycles and cycling safety equipment provided for employees to get to and from work and workplace parking for bicycles and motorcycles;
- reasonable removal expenses if you have to move to take up a new job or are transferred by your employer, up to a maximum of £8,000 for each move;
- genuine personal gifts given for reasons unconnected with the job, for example, retirement gifts other than cash, or wedding gifts;
- gifts, other than cash, that you receive from someone other than your employer, for example, seats at sporting or cultural events, providing that any gift or outing is not worth more than £250 in a single year;
- if you are disabled, equipment and facilities provided for you to carry out your job;
- long service awards; and
- Christmas, or other annual parties which cost no more than £150 per head inclusive of VAT, and are open to all staff.

COMMON BENEFITS-IN-KIND

ACCOMMODATION

If an employer provides accommodation for their employees either rent-free or below market rent then the difference between the rent you pay, if any, and annual value or the rent that the employer pays will be a benefit in kind unless it is exempt (see below).

A benefit will not arise if the accommodation meets any of the exempt criteria, as follows:

- Your employees cannot do their work properly without it, for example agricultural workers living on farms.
- An employer is usually expected to provide accommodation for people doing certain types of work, for example a manager living above a pub or a vicar looking after a parish.
- If you need to provide accommodation to protect an employee because the type of work they do means there's a special threat to their security.

An additional benefit will also arise if the employer pays for the running costs of the property while the employee lives in the property. These costs include:

- council tax;
- water and sewerage charges;
- heating, lighting and cleaning; and
- repair, maintenance and decoration.

A benefit will not arise on the council tax and water and sewerage charges paid by an employer if the accommodation is exempt.

Hotels and temporary accommodation

The cost of hotels and temporary accommodation while travelling for business purposes is not taxed. However, if you are given an overall cash allowance to cover these costs, this will be taxed, but anything you spend on accommodation for the purpose of your job can be deducted from your taxable income, as a tax relief.

COMMON BENEFITS-IN-KIND

CARS AND VANS

If an employee, director or a member of their family are provided with a company car which is available for private use then a benefit will arise. There are however a few instances when a benefit will not arise and these are as follows:

- The car is provided only for business purposes; and
- The car is not available for private use; and
- The car is not actually used for private use.

A benefit will not arise if an employee has some incidental private use of a 'pool car.' A pool car is essentially a shared vehicle that is mainly used for business purposes.

Please note that a car or van benefit applies even where there are no carbon dioxide emissions, for example the car is propelled solely by electricity.

If you are provided with a company van that you use mainly for work purposes and your only private journey is going to and from work, then no benefit will arise. Also, if you have insignificant private use of the van outside of these journey's then there will be no benefit, for example using the van for a private journey a few times a year.

There is no taxable fuel benefit if the van is propelled solely by electricity.

CHILDCARE EXPENSES

If you pay childcare costs yourself, you cannot claim these costs as relief against tax. Neither can you claim travel expenses to and from work for childcare reasons.

If your employer provides a nursery at your place of work, usually this will be completely free of tax and National Insurance Contributions (NICs).

If you start to get childcare vouchers from your employer under the Employer Supported Childcare Vouchers scheme, some of the payment you'll receive is tax free. How much you get tax free depends on what rate of tax you pay. The limits are:

- Basic rate taxpayer £55 per week
- Higher rate taxpayer £28 per week
- Additional rate tax payer £25 per week.

These do not apply if you are getting a benefit in cash. This is taxable in full from 5 October 2018, Childcare Vouchers are no longer available to new applicants but remain for existing recipients, unless they change employers.

COMMON BENEFITS-IN-KIND

If you get more than the weekly tax free limit in vouchers you will have to pay tax and NICs on any amount above this.

If you are already in the scheme, these changes won't affect you. You'll only have to pay tax and NICs on amounts over £55 per week, regardless of the rate of tax you pay.

Accepting childcare vouchers from your employer will usually mean a cut in cash pay. This could reduce your salary to a sum below the lower earnings limit for NICs, and may affect your right to certain benefits.

Accepting childcare vouchers can affect how much tax credit you can claim. The working tax credits system (being replaced by the Universal Tax Credit system) provides support for childcare costs but where costs are covered by vouchers, they cannot be included as part of your claim. GOV.UK provide a calculator tool which aims to help you decide whether you are better off taking the vouchers or not. Use this tool with caution if your income goes up or down, as most tax credits are based on the income for the year before, while tax and national insurance are based on the current tax year.

CLOTHING

Work and safety clothes provided by your employer, for example, overalls and protective helmets or shoes, are not liable to tax. However, any normal clothing provided by your employer is taxable.

CREDIT CARDS & CHARGE CARDS

If your employer allows you to use a company credit card a benefit will arise on any goods or services that are not 'wholly, exclusively and necessarily' for the purpose of your job. Therefore any personal expenses purchased on the employers company credit card will give rise to a benefit.

FUEL

Fuel paid for by an employer or provided by your employer for personal use is taxable.

HOLIDAYS

If you receive a free holiday from your employer then you will have to pay tax on its value.

COMMON BENEFITS-IN-KIND

JOB-RELATED BENEFITS

Job-related benefits are benefits to employees provided from within the employer's business, as part of their normal business. They include cheap airline seats for airline staff, cheap rail travel for railway employees and goods or services provided by a business which are offered free or at a discounted price to employees.

They are taxable at the marginal cost to the employer, so provided the employee pays this much for the benefit there will be no further taxable benefit.

This does not include company cars and fuel, loans, accommodation or mobile phones, as there are special rules for these items.

Cash allowances given in lieu of job-related benefits are taxable for all employees. Payments to miners in lieu of coal, however, are not taxable.

LOANS

If an employer lends money to an employee, either interest free or a cheap rate of interest, then a benefit may arise. This includes any directors who borrow money through their directors loan accounts.

If the amount loaned to the employee is below £10,000 throughout the whole tax year then a benefit will not arise and will not need to be reported to HMRC. There is also an exemption for certain qualifying loans.

MEALS

If meals are provided by an employer in their staff canteen, which is available to all staff, then this does not give rise to a benefit.

In addition, if you get free or subsidised meals at work, and the meals are available to all employees, they will also not be taxable and do not need to be listed on your tax return. This extends to tickets or vouchers given by employers for free and subsidised meals where the meals are not provided by the employer as long as they are provided at your place of work.

Meals that are not exempt include:

- Meals not on a reasonable scale, e.g. elaborate meals with fine wines, or
- Meals that are provided off-site but not at a canteen, e.g. at a restaurant, or
- Meals that are not available to all staff.

Other vouchers given for meals that can be exchanged for food or cash away from your place of work will give rise to a benefit.

COMMON BENEFITS-IN-KIND

MEDICAL INSURANCE

If an employer provides medical or dental insurance to their employees this will be a benefit and the employee will be taxed on the cost that the employer incurred.

MILEAGE ALLOWANCES

If your employer pays you mileage allowance for using your own car, van, motorbike or bicycle for work journeys, these payments are not taxable as long as they are within the limits set by HM Revenue & Customs.

The limits are called approved mileage rates. Information about current approved mileage rates can be found on the website of GOV.UK at: www.gov.uk or by emailing the tax team on TaxTeam@LewisBrownlee.co.uk

Tax-free mileage allowances apply only to work journeys, that is, journeys you have to make in the course of doing your job. Work journeys include, for example, delivering goods or making calls to customers. They do not include journeys to and from your normal workplace.

OVERNIGHT EXPENSES

If you are travelling overnight for business purposes and you spend money on personal expenses such as newspapers, laundry or private telephone calls, you can have a certain amount of these expenses reimbursed to you by your employer.

You do not have to report or pay anything to HM Revenue and Customs (HMRC) if you are reimbursed no more than:

- £5 per night for travel within the UK.
- £10 per night for travel outside of the UK.

RELOCATION EXPENSES

If your employer pays for certain relocation costs up to £8,000, this is tax-free. However anything above this amount will be a taxable benefit.

The relocation costs that are allowed include:

- The costs of buying or selling a home
- Moving costs
- Buying certain things for a new home
- Bridging loans

COMMON BENEFITS-IN-KIND

These are only qualifying costs when:

- A new employee is moving area to start a job with you;
- An existing employee is changing their place of work within your organisation;
- The costs are paid before the end of the tax year after the one in which the move took place; and
- The employee's new home is reasonably close to the workplace and their old home is not.

SHARES

Generally, the value of shares transferred to an employee or director at a discount is liable to tax. There are, however, a number of schemes which can give tax and National Insurance Contribution advantages if you obtain shares (usually in the company you work for) at a discount or for free.

TRAINING

If your employer pays for a training course relating to your job, the value of the payment made by your employer is not taxable. This exemption includes extra costs such as travelling to and from the course and any costs in connection with an assessment of the training – for example, the cost of sitting an exam.

If your employer pays for your training course in order to retrain you for another job, the value of the payment made by the employer is not taxable.

TRAVELLING EXPENSES

If your employer reimburses you for the costs of travelling to and from work or pays these direct, for example, by buying a season ticket for you, the value of this benefit is generally taxable. However, you can claim tax relief on any travelling expenses paid by your employer to cover the cost of journeys made by you as a necessary part of your job, excluding journeys to and from work. For tax treatment of mileage allowances, see under heading Mileage Allowances.

VOUCHERS

If you get vouchers, including cheque vouchers which are exchangeable for goods and services, you will be taxed on the cost to your employer of providing the voucher and these goods and services. Childcare vouchers are an exception. Cash vouchers, such as Holiday Stamp schemes used in the building industry, are subject to tax in all cases. If the voucher can be exchanged for cash, the tax will generally be paid through PAYE, that is, it will be deducted from your pay, as if it were a payment of cash.

WHAT DO I NEED TO DO?

EMPLOYEES

If you receive any taxable benefits-in-kind, and you complete a tax return, you must enter their value on the Employment page of your tax return for the relevant year, even if tax has already been paid on them under PAYE.

Benefits-in-kind may be taxed under PAYE by being offset against personal tax allowances in your PAYE code. You should always check your PAYE Coding Notice and tell HMRC if you do not understand it or if you think you are not paying the right amount of tax.

If the benefits-in-kind are not included in your tax code for the year when you receive them, the tax on them may be collected after the end of the tax year. If you do not complete a Self Assessment tax return, you may receive either a form P800, or PA302, telling you about an underpayment or overpayment of tax.

EMPLOYERS

Employers have to make a return to HM Revenue and Customs (HMRC) with details of any benefits-in-kind given to employees. You make the return on the form P11D, which lists the benefits and expenses for the relevant tax year.

You need to send the P11D to HM Revenue & Customs no later than 6 July following the end of the tax year. You must also supply a copy to the employees by this date.

A company will also need to file a P11D(b) form, which summarises the individual P11D forms that have been prepared for each employee. The P11D(b) will also document how much National Insurance will need to be paid on all the expenses and benefits that have been provided.

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LetsTalk@LewisBrownlee.co.uk

Chichester - 01243 782 423

Midhurst - 01730 817 243

London - 020 7043 2212

Whiteley - 01489 287 378



LEWIS BROWNLEE

Lewis Brownlee (Chichester) Limited, Appledram Barns, Birdham Road, Chichester, PO20 7EQ

01243 782 423 | LetsTalk@LewisBrownlee.co.uk | www.LewisBrownlee.co.uk

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