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April 2017

Employee Benefits

www.abggroup.co.uk

Telephone 020 7330 0000 30 City Road, London, EC1Y 2AB

Employee Benefits

In this guide "Employee Benefits" we take a look at some of the tax implications of an employee accepting common employee benefits. Most employers now provide a range of benefits in kind to their employees some employees may be able to choose which benefits they take. Employees should be made aware of the different tax and national insurance (NI) implications of each benefit they pick.

Tax-free benefits

This table below lists the most frequently encountered benefits which are tax and NI free if all the conditions are met. Other forms of benefit may be tax-free when working abroad or in certain specialist occupations.

Benefit provided	Principle conditions applying per employee
Mobile phone	1 phone, employer must retain 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 and spectacles 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	1 per tax year
Trivial benefits	Non-cash, worth up to £50 per gift, capped at £300 per year for directors of the employing company
Pension contributions	Within annual allowance limits
Relocation expenses	Up to £8,000 per move, if connected to change of job
Works bus	Used only or mainly to transport employees

Pension contributions

If an annual salary exceeds £10,000 employees should be automatically enrolled into an occupational pension scheme if your employer has started auto-enrolment. An employer's contributions into that scheme are free of tax and NI, if the total pension contributions paid in don't exceed the employees pension annual allowance.

This allowance is normally set at £40,000 per year. But where an employee has flexi-accessed to a pension fund, as permitted from age 55, the maximum an employee and their employer can contribute into your pension scheme is £4,000 per year.

If an employee's total income is £150,000 or more (including pension contributions an employer has paid on behalf of the employee) the annual allowance is tapered down to £10,000 per year. These lower allowances mean an employee needs to monitor how much is contributed to any pension fund held in your name.

Company cars

The taxable benefit of a company car is based on the list price of the vehicle when new, multiplied by a percentage derived from its CO2 emissions rating.

The lower the CO2 emissions, the lower the percentage, which means a smaller taxable benefit. However, the list price percentage will generally increase each year, meaning you pay more tax each year on the same car.

From 2020 hybrid and electric cars will be taxed at lower levels, if the electric engine sustains a longer range. A hybrid with a range of 130 miles or more will be taxed as if it was a purely electric car.

Vans
A small commercial vehicle, such as a van or pick-up truck, is taxed at a relatively low level compared to a company car. There is no taxable benefit if the van is used entirely for business journeys. Travelling to and from work in a commercial vehicle is classed as a business journey, which is not the case for a company car driver.

Where the van is used for private journeys, the taxable benefit is £3,230 (for 2017/18) at any positive level of CO_2 emissions. If the van has zero emissions, the taxable benefit is only £646 for 2017/18.

Childcare
Employer provided childcare is completely tax-free if it is provided in a workplace nursery. Not many employers can make such a significant investment in childcare facilities, so instead they provide their employees with childcare vouchers to use to pay for registered childcare.

These vouchers are free of tax and NI when provided to employees within the following limits:

Employer judges employee's marginal income tax rate to be	Weekly value of childcare voucher
Basic rate	£55
Higher rate	£28
Additional rate	£25

Employer provided childcare vouchers won't be available to new users from April 2018. Parents can switch to a government subsidised saving scheme for childcare from 28 April 2017, known as tax-free childcare.

Loans
A loan of up to £10,000 to an employee is tax-free, even if the employee pays no interest on that loan.
If the total value of the interest-free loans you make to an employee exceeds £10,000 in the year, an employee is taxed on the interest saved (calculated at the relatively low rate of 3%). The employee will have to repay the loan at some point but if it is written off, the amount the employee did not have to repay is taxed as if it was part of a salary.

Salary sacrifice
A salary sacrifice arrangement is when an employee gives up some of his/her salary in return for a benefit. Such arrangements can save both employer and employee money (if the benefit provided is one which is tax or NI free).

The government is changing the rules so the tax and NI savings disappear in many salary sacrifice arrangements. The new rules will apply to new salary sacrifice arrangements entered into from 6 April 2017 onwards. Existing salary sacrifice arrangements will be caught if they are modified or renewed after that date, such as when a different company car is provided.

All salary sacrifice arrangements involving cars, vans, fuel, accommodation and school fees will come under the new rules from 6 April 2021. Other benefits, such as car parking near work, will fall under the new salary sacrifice rules from 6 April 2018.

Some benefits won't be affected at all, and these include pension contributions, subsidised meals and medical treatments.

Payrolling benefits
When an employee receives a new type of taxable benefit, it can take many months before the PAYE code is amended to take account of the additional tax due. This may leave the employee with a large unexpected tax bill after the end of the tax year.

Many employers are now deducting the tax due on benefits through the payroll, at the time the employee enjoys use of the benefit in kind. This means the employee pays the tax due during the tax year, and don't get a nasty surprise long after the year end.

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