McLINTOCKS
CHARTERED ACCOUNTANTS
AND BUSINESS ADVISORS

Employee benefits and rewarding staff

A guide to rewarding your staff and the tax treatment of employee benefits.

Many of us do not really think about the commitment that employees make to their employers in terms of time. The average 9 - 5 worker with their 5.6 weeks of statutory holiday is likely to work around 1,880 hours a year.

Understandably, many employers want to provide their staff with a range of benefits to make their employment more enjoyable and to reward them for doing a good job.

The way that these employee benefits and rewards interact with tax is also going to factor into a business' decision about what kinds of benefits they offer their employees. There are a number of different tax considerations for companies to consider.

Taxable benefits

Benefits in kind (BiKs) are benefits which employees and directors receive as part of their employment but are not included in their salary or wages. Often the receiver of these benefits will not have to pay for them or may be able to purchase things for a reduced price.

Some BiKs are taxable while others aren't. Where tax is owed, HMRC calculates the liability through the taxable value or cash equivalent value of the benefit, although there are exceptions (company cars being a prominent example).

Company cars

Company cars are one of the most well-known and common examples of a BiK. Offering employees a car is a perk that can not only make their lives easier and boost morale but can also allow employers to reduce their tax liability.

Tax is paid on the value of the vehicle in question, which is a combination of how much it would cost to buy and its likely fuel cost. The value is reduced if it has lower CO_2 costs or it is shared between multiple employees.

Class 1 national insurance contributions (NICs) are paid on the taxable value of cars and any fuel provided at a rate of 13.8% (calculations must include car benefit and fuel scale charges).

For employers there are a number of tax advantages to company cars, including:

- company cars are eligible for capital allowances, meaning some expenditure can be deducted from pre-tax profits (writing down allowances must be used as company cars are excluded from the annual investment allowance)
- enhanced capital allowances can also be claimed which allow a 100% write-down in the first year of ownership
- VAT can be recovered on fuel that is used for business purposes only
- businesses that own company cars do not have to pay tax on insurance, repairs, road tax and maintenance costs.

Talk to us about company cars today.

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Loans

Some employers loan their workers money, and this carries certain national insurance (NI) and reporting obligations. There are a number of technical exemptions as to what qualifies as taxable in these situations, but for both beneficial loans and those you will write off, you need to:

- report it on a P11D form
- deduct class 1A NICs on the value of the benefit.

Living accommodation

The general rule for the provision of accommodation that is either rent-free or the rent is below market rent, it is the difference between the actual rent paid and the annual market value of the property that is taxable.

The annual value of the property is equivalent to gross rateable value.

An extra charge will occur if the property was bought by the employer for more than £75,000.

Accommodation provided will be tax-free if it is necessary for the performance of an employee's duties or the job has special security requirements that make specialised accommodation a necessity.

Insurance

If you pay employee liability and indemnity insurance, you will have to report the costs on a P11D form.

This kind of insurance covers your employee if someone should take them to court for a mistake they made during work hours in their employed capacity.

While reporting the cost of the insurance payments, you are not required to deduct or pay tax or NICs.

Non-taxable benefits

There are a whole range of BiKs that are tax-free and do not need to be included in tax reporting.

A benefit will be considered 'trivial' and non-taxable if it is worth less than £50 in value, is not a bonus or part of a salary sacrifice scheme or is not cash or a cash voucher.

Other tax-free benefits include:

- contributions paid by employers into an occupational or personal pension scheme
- free or discounted meals that are provided for all staff
- in-house sports facilities
- certain kinds of childcare arrangements
- work buses or subsidised public services
- wedding or retirement gifts
- equipment and facilities provided for employees with disabilities.

We can help you work out your tax liability.

Reporting

Employers that provide their employees with any kind of taxable benefit will need to report it to HMRC.

This is usually done at the end of each tax year through P11D forms for each employee.

A P11D(b) form will also be required if you have submitted a P11D form or have paid employee expenses through payroll.

P11D forms must be submitted by 6 July.

The purpose of a P11D form is to show how much class 1A NI is owed on benefits and expenses. If you don't owe any NI you can inform HMRC by filing a declaration.

Employers who register with HMRC before 6 April every year can deduct and pay tax on employee expenses through payroll. No P11D from is needed in this instance but a form P11D(b) will still need to be submitted.

It is important to remember that individual benefits may be taxed differently.

Rewarding your staff

Providing your staff with a range of BiKs is an ongoing process designed to make your working environment conducive to productive and engaged work. There are certain occasions when it may be necessary to reward your staff in other ways.

Bonuses and incentive rewards

If you provide your staff with cash or non-cash bonuses, you will need to treat this as part of an employee's earnings.

This means that you will need to deduct income tax and class 1A NI through payroll. The rules may be different for items depending on what they are, so speak to an adviser before you commit to anything.

Staff parties

Whether or not you need to report and pay NI on your staff parties depends on whether:

- it's an annual event (such as summer and Christmas parties)
- it's open to all employees
- the cost is less than £150 per head.

If the party meets these conditions, no tax or reporting is required. If the events are not exempt, class 1A NICs are liable on the full cost and must be reported on a form P11D.

Employee benefits and staff rewards are an important part of the modern workplace and understanding their relation to taxation and reporting is essential.

Ultimately, staff that feel like they are being taken care of will work harder and be more engaged in pushing your business forward.

For more information and guidance on employee benefits, contact us today.