

BUSINESS TAX

Employee Benefits and Expenses: What Is Taxable

Which perks and expenses are tax-free, which create a tax bill for you or your staff, and how to report them correctly.

FOR: EMPLOYERS AND DIRECTORS • SOME EXPERIENCE

A benefit is a reward that is not in the payslip

When a business gives its employees or directors something of value other than cash pay, tax law often treats it as a benefit in kind. Examples include company cars, private medical insurance, interest-free loans, and personal use of business assets. A benefit can create income tax for the person who receives it, and national insurance for the employer. This is true for company directors as well as employees, and in a small company the director is often the one receiving the benefit. Spotting benefits before they are provided avoids unexpected bills.

Expenses are different

An **expense** reimburses a cost the person incurred for the business: a train fare, a hotel on a business trip, a business phone call. Properly reimbursed and recorded, expenses are not taxable. A **benefit** is something the business provides that has a private value to the person, so it may be taxable. The distinction is not always obvious, which is why the details matter.

Common benefits and their treatment

- **Company cars and vans.** A taxable benefit, calculated from the car's value and emissions, with a separate charge for fuel. Electric vehicles are treated more favourably. Private use of a van is a flat benefit.
- **Private medical insurance.** Generally a taxable benefit.
- **Loans to directors or staff.** If cheap or interest-free above a limit, there is a taxable benefit.
- **Personal use of business assets,** such as a computer, phone or property.
- **Living accommodation.**
- **Private bills paid by the company.**

Who this is for

- Employers offering perks
- Directors using company assets
- Anyone given something by their employer

Key points

- Check the tax before you provide a benefit.
- Reimbursed business costs are not benefits.
- Some perks are specifically exempt.
- Benefits are reported to HMRC each year.
- The employer pays national insurance on most benefits.

Benefits that are often tax-free

Several are exempt, subject to conditions and limits, which change, so check before you rely on them:

- **Trivial benefits**, small gifts and treats that are not rewards for work or a contractual entitlement.
- **Annual staff events**, within an overall limit per person.
- **Work-related training** and qualifications that help the person do the job.
- **Workplace eye tests and equipment** for screen use.
- **Cycle-to-work and similar schemes**, under approved rules.
- **Employer pension contributions**, subject to annual limits and other conditions.
- **Mobile phone**, one per employee, in some cases.
- **Reasonable relocation costs** within limits.

A benefit that comes within an exemption still needs to meet all its conditions. Check each before you offer it.

Before offering a perk

- Is it a benefit or an expense?
- Is it exempt, and on what conditions?
- Who pays the tax?
- How will it be reported?
- Is there a cheaper alternative?

Reporting and paying

- Benefits are normally reported to HMRC on a form after the end of the tax year (a P11D), and the employer pays class 1A national insurance on most of them.
- Alternatively, benefits can be **payrolled**, so the tax is collected through the payroll during the year.
- A **PAYE settlement agreement** lets the employer pay the tax on minor or irregular benefits on the employees' behalf.

Deadlines are fixed and penalties apply, so tell your accountant about benefits during the year, not afterwards.

Directors and owner-managers

In a close company, the same rules apply, and HMRC looks closely at the personal use of company assets by the owner. Paying a private bill from the company, living in a company property, or using a company vehicle all have tax consequences. Alternatives, such as paying the director more salary and letting them buy the item personally, can sometimes be simpler. Ask before you act.

A good habit

Keep a list of everything the business provides to anyone, with its cost and who uses it. Review it each year with your accountant.

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How King Street can help

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We review the benefits you provide, tell you the tax and national insurance cost before you commit, prepare the annual reports or payroll them, and agree settlement arrangements for small or irregular items. For directors, we look at the most tax-efficient ways of providing what you need.

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