SOPHER+CO
Chartered Accountants

P11D Guidelines
Year Ended 5 April 2016

Taxing Benefits

As an employer, every year you are required by HMRC to pay Class 1A NIC on benefits provided to your employees. The value of the benefit received by the employees is recorded on the forms P11D for each employee or director, the total value of all benefits and the NIC payable is recorded on the form P11D(b).

Please note that if you have received a form P11D(b) from HMRC then you must complete the form and return it to HMRC, even if the company has not provided any benefits. A Nil return should be submitted in this circumstance.

P11D's are required when benefits or expenses are paid to a director or to an employee earning £8,500 or more per annum. Each employee that received benefits will need a copy of the P11D form.

If a dispensation is not in place then there is also a reporting requirement for reimbursed business expenses relating to items such as travel and subsistence expenses, business phones and hire car costs.

The guide below should give you further guidance on which items need to be included on the form P11D.

A Assets transferred

Box 'A' on the form P11D requires details of assets given to employees or sold to them at less than their true value. The benefit in kind will be the cost to the employer, or in certain circumstances, may be up to the full market value of the asset at the time of transfer, if this is greater.

B Payments made on behalf of employees

Box 'B' requires details of any amounts that you have paid on behalf of your employee. The meeting of an employee's liability is taxable. Payment of tax on behalf of a Director/employee is taxable in full and must be reported on the form.

C Vouchers and credit cards

The term 'voucher, stamp of similar document or token capable of being exchanged for money, goods or services'. This includes items such as store vouchers, but it is widely defined to catch season tickets (trains/buses) and more obscure items, such as tokens for vending machines, etc. The taxable benefit is the gross cost to the employer of providing the vouchers, less any amount made good.

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Qualifying childcare vouchers – registrations up to 5 April 2011.

The rate is £55 per week. Payments in excess of £55 need to be reported on the P11Ds. In addition, you need to add the amount above £55 per week to the employee's earnings when deducting and paying Class 1 NICs (but not PAYE tax) through your payroll.

Qualifying childcare vouchers – registrations from 6 April 2011

The rates vary depending on the tax rate band the employee falls into. These are:-
Basic rate tax payer - £55 per week / £243 per month
Higher rate tax payer - £28 per week / £124 per month
Additional rate tax payer - £25 per week / £110 per month

Payments in excess of relevant rate need to be reported on the P11Ds. In addition, you need to add the excess amount to the employee's earnings when deducting and paying Class 1 NICs (but not PAYE tax) through your payroll. This is because it falls within Class 1 and has to be accounted for on an earnings period basis.

Employees are not assessable on the initial joining fee, annual subscription or interest charges in respect of a credit card provided by reason of their employment. They are, however assessable on the expense incurred by their employer in settling other items on a credit card account, but subject to the usual deduction for bona fide business expenses.

D Living accommodation

An employee is potentially liable to tax if provided with living accommodation by his or her employer. There is no statutory definition of living accommodation but, in the Revenue's view, it covers 'all kinds of residential mansions, houses, flat, house boats, holiday homes or apartments'. Frequently, the accommodation will be the main residence of the employee concerned.

E Mileage allowances and passenger payments

Employers may reimburse specified amounts per business mile driven in a privately owned vehicle, without causing the director or employee concerned to incur a tax charge. The amounts allowed are as follows: -

Type of Vehicle	Rate per mile	Type of vehicle	Rate per mile
Cars and Vans	45p for the first 10,000 miles 25p for any additional miles	Bicycles	20p
Motorcycles	24p	Per Passenger	5p

There is nothing in the legislation to stop employers paying higher rates per mile; for example, some employers may choose to reimburse 45p per mile even to employees who cover more than 10,000 business miles by car. Any excess over the approved amount, however, is taxable and must be entered on box E of form P11D.

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F Cars

A company car tax charge arises when a car is made available to an individual by reason of his or her employment and where it is available for that person's private use. A charge can also arise if a car is made available to members of that individual's family or household.

Zero emission cars and vans

The appropriate percentage for calculating the benefit in kind on zero emission cars or vans, including wholly electrically propelled vehicles, is 0%. As no benefit is taxable on the employee this does not need to be reported.

Fuel for Private Use

If fuel is provided for private use, then there is an additional charge which is irrespective of the personal use mileage of the car. Due to the nature of this charge, it his highly recommended that whilst business mileage can continue to be claimed that no personal mileage is charged to the company.

G Vans

Any employee benefiting from the private use of a van (irrespective of age) pays income tax on a standard amount of £3,090 a year. An additional fuel charge of £581 will also apply for unrestricted private use.

No charge applies to employees who have to take the company van home and private use is restricted other than for ordinary commuting (insignificant use is disregarded).

H Employment-related loans (In excess of £10,000)

A taxable benefit may arise where an employee is provided with a loan either interest-free or at a favourable rate of interest. The tax charge may arise whether the loan is made by the employer or by certain other lenders. A taxable benefit can also arise where an employee's relative is provided with a cheap loan.

A benefit also arises if such a loan is released or written off. For these purposes a loan includes any form of credit therefore any debt shown in the company's books in respect of an employee will be treated as a loan. Where directors withdraw money from the company it will be necessary to consider whether these withdrawals should be treated as remuneration (or on account of remuneration) or whether they are loans. If the former, then PAYE should be applied at the time of withdrawal. If not, then an employment-related loan is likely to be created by the withdrawal.

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If a director's loan account has been overdrawn by more than £10,000 at any time during the tax year, the benefit must be calculated and declared.

I Private medical costs & insurance

There is a tax charge where an employer pays an employee's medical expenses. Any amount incurred by the employee and reimbursed by the employer should strictly be subject to PAYE and NICs. There is a taxable benefit where the employer contracts directly with the hospital or other provider of medical services. The benefit is the cost of the services less any contribution from the employee.

The more common situation is for employers to pay into a medical insurance scheme on behalf of an employee and/or members of his family, with an organisation such as BUPA, BCWA or PPP. This gives rise to a taxable benefit in respect of the cost of the premium paid, less any contribution from the employee.

J Relocation expenses and benefits

Subject to certain conditions, an employer may contribute up to £8,000 tax-free towards an employee's expenses of moving house. If more than £8,000 is paid the excess is not subject to PAYE but must be entered on form P11D, unless the employer meets the tax liability through a PAYE Settlement Agreement. Qualifying expenses exceeding the £8,000 limit are recorded at Box 'J'.

To meet the conditions for exemption, the expenses must be 'reasonably incurred' in respect of a change in the employee's residence either when he starts work for an employer, or when there is a change in the duties and/or the location of the employment, such that it is no longer reasonable for the employee to travel daily from his former residence. His new residence must be within reasonable daily travelling distance of the new place of employment.

K Services supplied

The P11D Guide states simply that employers should enter the additional cost of any services supplied where the contract is between you and the service supplier. If the contract is between the supplier and the employee then an entry will normally be made at box 'B'.

L Assets placed at the employee's disposal

A benefit may arise when an employer lends an asset, such as a company yacht or equipment of some kind, to an employee or his family or household. A tax charge can arise if the asset is available to the employee or his family for private use, even if it is not actually used.

The loan of mobile phones for private use (restricted to one per employee only), the use of works buses, bicycles and cycle safety equipment and the loan of computer equipment for private use, provided these benefits are available to all staff are not a chargeable benefit.

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M Other items

Box 'M' is the catchall for any other benefits not reported elsewhere on the form. Professional fees and subscriptions specifically belong to this section.

If the personal tax affairs of any Directors or employees are dealt with by Sopher + Co and the fees are settled by you, the relevant amount will need to be reported on form P11D as a benefit in kind.

N Expenses payments

Entertaining

The cost of business entertaining is not a deductible expense for tax purposes. If an employee incurs such expenditure and is reimbursed by their employer, the disallowance will fall on the employer and the employee will generally not be taxed on such sums.

Employers should tick the box on form P11D to indicate that the cost of the entertaining will be disallowed in the tax computations of the business. If this disallowance is to be made, the full amount should nevertheless be shown on form P11D.

If an employee is given a round sum allowance to cover various types of expense, including entertaining, then the employer will not be able to make the disallowance in his tax computations if he is unable to verify how the expenditure has been divided between allowable and disallowable expenditure. Where an employee is provided with round sum expenses these are likely to be taxable in full under PAYE.

Travel and subsistence payments

These are probably the most common of all expense payments made to employees by their employers. The basic principle is that the cost of travel between home and work (ordinary commuting) is not allowable for tax purposes. It follows that if the employer meets such costs then the employee will have to pay tax on the amounts involved.

As long as the travel costs qualify for relief, the employer may reimburse any related subsistence costs, including hotel bills, meals and drinks. Subsistence expenditure is treated as incurred as a product of business travel and is therefore treated as part of the cost of that travel. As always, an entry must nevertheless be made on form P11D unless a dispensation is in place.

Home Telephone

If the employer has subscribed directly with the telephone company, entries need to be made at box 'N' and the employee will be taxed on the cost of the rental and private calls. If the employee is the subscriber then any payment of telephone rental or of private phone calls will be treated as though the employer has met the employee's pecuniary liability and therefore entries need to be made at box 'K'.

If the employee is reimbursed, strictly speaking PAYE should be applied at the time of reimbursement.

Mobile Telephones

You don't have to report anything to HMRC or deduct and pay tax and National Insurance if both the following apply:

- You provide your employee with only **one** mobile phone, and
- The contract is between you (the employer) and the supplier

The exemption covers the cost of supplying the phone itself, any line rental or other subscription costs, and the costs of business and private calls.

Should an employer provide more than one mobile telephone, the cost of this additional phone connection may be treated as a benefit in kind unless the private use of this additional phone is **insignificant**.

Other scenarios for the treatment for mobile phones are as follows:

If your employee arranges the phone but you (the employer) pay the supplier then:

- This is reportable on form P11D and
- Subject Class 1 National Insurance through the payroll.

Where the employee uses their own phone and you (the employer) reimburse them:

- There is no P11D reporting requirements, however
- The payments are subject to Class 1 National Insurance and tax through the payroll.

In the above two scenarios, where an itemised cost of business calls is available, the costs of these calls will be reimbursable tax free, in the absence of a dispensation this should be reported on the form P11D.

Ideally the contract for the business mobile phone should be in the company name, the company can then pay all bills directly without a benefit in kind arising on the employee.

Staff Entertaining

There is an exemption from tax, NICs and reporting if you provide a party or similar function for employees that meets the following three conditions:

1. It's an annual event, such as a Christmas party or summer barbeque
2. The event is open to all of your employees
3. The cost per head of the event is not more than £150 per person.

Please note that if the total cost of the party or parties exceed £150 a head then the full amount is taxable, not just the excess over £150.

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If you do not want for the staff party to be taxable on your employees then you may consider a PSA with HMRC.

General Office Expenses

Please note that there is no need to report or tax for reimbursement of general business or office supplies such as stationary, stamps, tea, milk and biscuits etc.

Filing Requirements

If you have received a form P11D(b) or have made taxable benefits or expenses payments to employees or directors then the P11d forms must be submitted for the company.

Once the forms have been provided;
- HMRC should be sent a copy of the forms P11D,
- The company should keep a copy for their records
- Each employee should be given a copy of their P11D for their records.

P11Ds can now been filed electronically.

Company Record Keeping

It is important that accurate records are kept of benefits and expenses, HMRC are known for checking up on companies to make sure that all benefits are being recorded and taxed appropriately.

If you have any specific queries on any particular item, please do not hesitate to call on **0208 207 0602**.

Dispensations

If you are reimbursing your employees for non-taxable expenses then a dispensation would remove the reporting requirement. A dispensation can be used to cover the following business expenses;

- Travel and subsistence costs associated with business use
- Fuel for company cars
- Hire car costs
- Business telephone
- Business entertainment expenses
- Credit cards used for business
- Fees and subscriptions to qualifying professional bodies

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PAYE Settlement Agreements (PSAs)

A PSA is a flexible scheme you can use to settle any PAYE (Pay As You Earn) tax and National Insurance contributions (NICs) due to HMRC on three types of expense and benefit: minor items, irregular items, and items it's impractical to operate PAYE on, or to value for P11D purposes.

If HMRC agree to include an expense or benefit in a PSA, you will not need to include the item on the employees for P11D or put the item through the payroll or pay Class 1 or Class 1A NICs

Instead, you settle the tax and NICs due on the items covered by a PSA with a single payment that includes both:

- The tax due on the expenses and benefits covered by the PSA - note that this tax would normally be payable by your employee (usually through their tax code), and that the tax you pay must be 'grossed up' taking account of the tax rates payable by the employees covered by your PSA

- Class 1B NICs, calculated not just on the value of the items covered by the PSA but also on the tax paid under the PSA - this is because paying an employee's tax liability counts as providing them with a further benefit.

A PSA is a contractual arrangement with HMRC, for one to be in place HMRC must issue a PSA contract which needs to be signed on behalf of the company and then returned to HMRC for signature by HMRC.

There are four steps involved in working out the total amount payable to HMRC under a PSA:

1. First, we must calculate the total value, including VAT, of the expenses and benefits included in the PSA.
2. Second, we must calculate the tax due on the items covered by the PSA. Note that the tax due will differ depending on how many employees pay tax at the basic rate, how many pay at the higher rate and how many pay at the additional rate.
3. Third, the total tax figure must be 'grossed up' - again we will have to take account here of whether employees pay tax at the basic, higher or additional rate.
4. Finally, we must calculate Class 1B NICs as a fixed percentage (13.8 %) of the combined total of (i) the value including VAT of all the items in the PSA that attract a Class 1 or Class 1A NICs liability, and (ii) the grossed-up tax total from step two above.

A PSA is commonly used where the business does not want to pass the cost and tax consequence of the benefit onto the employees; for example with staff entertaining and items such as travel insurance.

If you would like to discuss setting up a PSA for your business, please contact me. The PSA is contractual so will need to be signed by both yourself and HMRC to be effective. The deadline for the agreement of the PSA is 6 July, but ideally this should be in place before the end of the tax year.