Thursfields
CHARTERED ACCOUNTANTS

PayLessTax
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Mandatory Payrolling Of Benefits

Businesses have been able to voluntarily opt to payroll benefits and taxable expenses provided to their employees since 2012. **However, from April 2027 onwards all employers will have to put the taxable value of all benefits through the payroll** with two notable exceptions, living accommodation and beneficial loans. In those two cases the business will still be able to opt whether or not to payroll them.

What will all this mean?

From a positive perspective, the vast majority of employers or their accountants, will no longer need to complete and submit forms P11D by 6th July following the end of the relevant tax year, detailing the benefits the employees have received.

The downside is:

- The business will need to work out the taxable value of each benefit either at the start of the tax year or when the employee starts to receive such a benefit during the course of that year.

- They will need to then divide that value by the number of paydays that employee has left in that tax year and add that taxable amount to the salary each time and deduct tax from it under Pay As You Earn.

- The business has to pay Class 1A national insurance (NI) over to HMRC on that benefit. Presently that is paid over in July following the end of the tax year. From April 2027 it will paid during the course of the tax year when the normal PAYE tax and national insurance is paid over.

For example

- Jon Brady is an employee of Vale Limited. He is paid £3,000 salary per month.

- His employer provides him with a private health insurance benefit. The cost to Vale Ltd is £600.

- The taxable value of the benefit for the whole year is £600.

- Jon has 12 monthly pay days in the year.

- A taxable value of £50 is added to his salary each month and then taxed through the payroll.

- Class 1A NI of £7.50 will have to paid across to HMRC every month.

The challenges surrounding the payrolling of benefits are numerous:

a) Notifying the payroll team about the benefit as soon as possible so that it can be processed in time.

b) Working out the taxable value to be added to the salary. In some cases reasonable estimates will need to be used and then reassessed on a regular basis during the course of the year.

c) If the employee has irregular pay days working out the taxable value on each occasion.

d) Making adjustments during the course of the year where there is a change of benefits (e.g. one company car for another) or an employee starts to receive one part way through the year or the person leaves.

e) Notifying the employees of how this will impact upon them going forward as well as informing them of what has gone through the payroll at the end of the tax year. For some employees in the initial mandatory year they may find that this creates a cashflow problem for them.

Failure to get this right will result in penalties being imposed although leniency will be shown in the first year.

TIP...
If you want help in running your payroll please do not hesitate to contact us..

Employee Own Car Interaction

Normally where an employee uses their own car for business travel, an employer can reimburse the cost of the business trip without tax and national insurance implications, as long as the reimbursement adheres to the approved HMRC mileage rates. Where a person is taking a fellow employee on the same business trip as a passenger, they can claim a further 5p per mile.

These rates have remained stubbornly the same since April 2011, that is 45p per mile for the first 10,000 business miles in a tax year and then 25p per mile thereafter. This is regardless of whether the vehicle is diesel, hybrid or electric. The rates are supposed to cover the cost of running the vehicle, such as fuel, repairs and servicing. Costs such as parking, road tolls or congestion charges can be reimbursed without tax or national insurance (NI) being payable, but this would not be the case for the employee's parking or speeding fines.

If the employer decides to pay above the HMRC approved rate, then unless that employer is payrolling benefits, the excess amount above the threshold should be shown on the benefit form P11D and taxed on the individual following the end of that year. **Class 1 NI should be suffered through the payroll system. However, only as regards the excess above 45p per mile, irrespective of how many business miles are executed during the year**.

There may be cases where the employer pays below the approved mileage rate or not at all. If that happens, the employee can claim the tax back on the difference between what has been reimbursed and the HMRC approved rate. The passenger rate of 5p per mile cannot be claimed this way.

This can be done either online through the Revenue's website or through their self-assessment tax return.

It is important for both the employee and employer to keep proper records to evidence the business mileage done, stating to and from where the journey took place, the purpose of the trip and details of any person travelling with them.

TIP...

Don't forget that a lower rate of 24p per business mile applies for motorcycles and 20p per business mile applies for bicycles. There's no 10,000 mile limit in either case. If you require any help with this matter please do not hesitate to contact us.

Hospitality Tips and Service Charges

Within the hospitality sector tipping and service charges are the accepted norm. The payment could be in the form of cash, a cheque, credit or debit cards or by using some digital app.

A tip is an uncalled for, spontaneous, out of the kindness of their heart, payment by a customer whilst a service charge, discretionary or mandatory, is an amount added to the customer's bill before it is presented to them.

But what are the key tax and national insurance implications for employers and employees as regards this tipping/service charge culture?

- If the tips are paid to the business owner and he/she decides how that money is to be allocated out to staff members, then PAYE tax and national insurance should be deducted from it through the business payroll.

- The business may put in place what is often referred to as a tronc scheme. A third party or person (usually an employee) agrees to be the tronc master and, totally independent of the owner, distributes the tips out to the staff. The owner can have no influence on how the monies are allocated. The tronc would need to set up a payroll and deduct tax from the tips. However, if operated correctly, no national insurance is incurred.

- If the customer pays the employee directly and that member of staff keeps it, then it is their responsibility to notify HMRC of the amount received and be taxed on it.

Other important factors to note are:

a) If the service charge is mandatory VAT should be charged at the standard rate.

b) **Another factor to remember is that tips, gratuities and service charges do not count towards the national minimum wage.** This is an error which commonly crops up when HMRC enquiries are made.

c) Following the implementation of the Employment Allocation of Tips Act 2023 from October 2024, businesses can no longer retain any element of tips/service charges for themselves. The whole amount has to be allocated out to employees and agency staff in a transparent and fair way, irrespective of whether it is the business owner or the tronc master who deals with the distribution.

TIP...

If you need help or advice in navigating the intricacies surrounding tips/service charges please do not hesitate to contact us.

Key Person Insurance

For many businesses, there will be key personnel who are important to the success of it, be it directors or employees. **If anything was to happen to these key people resulting in them having to take a leave of absence due to an accident, injury or critical illness or even worse that individual sadly passing away, the business could find its profits taking a tumble.**

To protect itself from such unfortunate scenarios occurring, the employer may consider taking out key person insurance. That insurance policy can take many forms. **For the premiums to be tax deductible the following two conditions have to be met:**

- The sole purpose of the policy is to meet the loss of trading income which may arise as a result of the loss of services provided by that key person.
- If it is a life insurance policy, it must be a term insurance which should not extend beyond the period of the individual's usefulness to the business.

If the premiums are tax deductible then any resulting receipts from a subsequent claim will also be taxable. If for some reason the business doesn't claim a tax deduction for the premiums, HMRC take the view that, if the policy meets those two conditions, the receipts would still be taxable.

There will be key person insurance where the premiums will not be tax deductible and therefore any pay outs derived from such a claim will not be taxable. This might be where it is:

- A whole of life policy.
- The premiums are paid into an endowment policy on the life of the key person which is tied to meeting future loan finance costs rather than the loss of trading profits.
- A critical illness or accident policy where the premiums contribute to a capital investment.

It is always wise to read over the policy terms before arriving at a decision on the tax implications surrounding the key person insurance policy you are about take out.

TIP... If you need clarity as to the tax position surrounding your key person insurance please do not hesitate to contact us. We are always here to help.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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