CHADDESLEY SANFORD

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Benefits in Kind

Have a look at our guide on workplace benefits

What is a company benefit?

Also known as a 'benefit in kind', a benefit can be anything that the business pays for on behalf of its employees (including if it's a sole director). So this could be pension contributions, childcare, medical insurance, accommodation, car/fuel, etc. If an employee chooses to swap some of their salary with a benefit this is called salary sacrifice.

Why might a company pay benefits?

There are several reasons a business might provide its employees with benefits, but the main ones are:

- It can reduce the company's corporation tax bill – as a business expense, it will offset profits and reduce any corporation tax bill by 19% of the expense.
- Class 2 National insurance saving – unlike with salary, the employee doesn't have to pay the 12% NI and so can potentially receive a higher value benefit than if they were to pay for it themselves, so this can be good for employee retention.

How are benefits taxed?

Some benefits aren't taxed at all because they are exempt. Examples include pension contributions, counselling services, or childcare* (*up to £55 per week for basic rate taxpayers).

Other benefits are generally taxed in the following way:

- £ Employees pay income tax (20% at the basic rate or 40% at the higher rate) on the value of the benefit
- £ The employer pays 13.8% Class 1 National Insurance on the value of the benefit

What about cars?

The government is making it more expensive to provide cars as a company benefit, and the more CO2 the car emits, the more the business and the employee will have to pay in tax.

It's often only beneficial to provide a company car when the car is fully electric and brand new, as from April 2020 the percentage benefit on all-electric cars will reduce to around 0-2%.

Alternatively the company can pay for the employee's mileage according to HMRC's approved mileage rates.

How are benefits reported and tax paid to HMRC?

The benefit can be added to the employee's payslips, with the tax deducted and paid through PAYE. If filing a self-assessment tax return, the beneficiary should report benefits on this even if they are already being taxed through PAYE.

Otherwise the company must report benefits via form P11D by 6th July each year (and must provide the employee with a copy), and must pay the NI due by 22nd July.

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