

Employers guide 2017/18

Key tax changes that will affect benefits in kind having arisen in 2017/18 tax year:

- Official rate of interest has now reduced from 3% to 2.5%, this will affect the calculation of both beneficial loan and living accommodation benefits.
- Benefits received in respect of non-cash vouchers and credit cards can now be payrolled.
- Changes in CO2 emissions %, fuel benefit and van benefit amounts as in previous years.
- Where assets made available to employees are shared, the amount of benefit for a particular employee is calculated using the normal rules but then reduced on a just and reasonable basis to take account of the fact that the asset is shared (for example, on the basis of number of days available to each employee).
- New rules regarding optional remuneration agreements (outlined further below).

Optional remuneration arrangements

In recent years, employers have increasingly offered their employees a 'flexible benefits' package, whereby an employee can choose which benefits they receive from a range of options, and these were generally structured via salary sacrifice. However, legislation has now been introduced to limit the tax and National Insurance contribution (NIC) advantages of the tax exemptions that apply to certain benefits and applies where a benefit is provided to an employee under an 'optional remuneration arrangement'.

There are two types of arrangements; one where the employee gives up a right to receive earnings (i.e. salary) in return for a benefit. The other is where the employee chooses to receive a benefit rather than an amount of salary. Where the legislation applies, the actual amount taxed (and subject to NIC) will be the higher of the cash amount that the employee would have received or the taxable benefit determined under benefit rules. Where salary is exchanged for an exempt benefit, (such as a mobile phone or parking space), the taxable benefit amount is deemed to be nil, so the employee will now always be taxed on amount of salary foregone.

You do not need to do anything if your employees are sacrificing salary only for pensions, pension advice, childcare vouchers, workplace nurseries, directly employer contracted



childcare, cycle to work or cars with CO2 emissions of or under 75g/km, as these benefits are excluded from the rules.

This legislation already applies for renewals of arrangements as well as new arrangements entered into on or after 6 April 2017.

For arrangements made before this date these rules apply as of 6 April 2018.

Existing arrangements for vans, fuel or living accommodation will not fall under these rules until 2021/22.

Voluntary 'payrolling' of benefits in kind

As you are probably aware, employers can deduct the tax due on benefits in kind through their payroll, rather than through an employee's tax code. All benefits in kind with the exception of living accommodation and beneficial loans can now be payrollled.

Employers wishing to payroll any of these benefits in kind for 2018/19 would have had to register their intention with HMRC by 5 April 2018. Once registered an employer will not need to complete a P11D for those benefits in kind which have been registered to payroll. Class 1A NICs will be payable on all benefits in kind which are not exempt, regardless of whether the benefit has been payrollled, and should be reported on form P11D(b).

Tax-Free Childcare

As of April 2017, parents with children under the age of 12, can now receive up to £2,000 a year per child (or £4,000 where disabled) towards their childcare cost through Tax-Free Childcare. The money can go towards a whole range of regulated childcare; including nurseries, childminders, after school clubs and holiday clubs. Tax-Free Childcare is a new government scheme to help parents with the costs of childcare, allowing parents to work or work more, if they want to. This will eventually replace the existing childcare voucher scheme 'Employer-Supported Childcare'. Parents cannot be part of both schemes.

Share transactions

We would also like to remind you of the potential reporting requirements of share transactions. Certain transactions in company shares/securities should be reported to HMRC following the end of the tax year in which they occur and an annual return is required for existing schemes. If you have Enterprise Management Incentives (EMI) or other tax advantaged options, have issued shares or options of any kind in the year or, if options have been exercised in the year, some reporting will be required.

Simplifying PAYE Settlement Agreements (PSA)

As of 6 April 2018, HMRC have removed the requirement for an annual agreement, in advance. For employers, this means reduced administrative requirements of renewing PSA's annually, as an enduring agreement will be created instead. Employers will still however be required to provide an annual calculation. HMRC continue to aim for digitisation of the PSA process at a future stage.

Termination payments Payments in Lieu of Notice (PILON)

With effect from 6 April 2018, all Payments in Lieu of Notice (PILON) will be chargeable to income tax and Class 1 NICs, regardless of whether they are contractual payments. Previously, if payments were not contractual, they were not always subject to NICs. Under the new changes, payments or benefits paid in connection with the termination of a person's employment will be split into two elements. The first element, post-employment notice pay (PENP), represents earnings that the employee would have received had they been given and worked their full and proper notice. The second element, is the remaining balance of the termination payment or benefit, which is not a PENP. This element will be taxable to the extent that it exceeds £30,000.

Detailed guidance on how and to what payments you should apply the PENP formula to, will be published in due course.

Foreign Service Relief

For employees (except seafarers), whose employments were terminated on or after 6 April 2018 and who are UK resident in the tax year in which their employment is terminated, Foreign Service relief on termination payments will no longer be applicable in respect of any periods of foreign service undertaken during their employment. This change is still subject to parliamentary approval.

Benefits in kind – cars & fuel

The scale rate will increase for petrol and diesel vehicles producing between 0 – 189 CO₂ g/km, ranging between 13% (0-50g/km) to 37% (180+ g/km). Car fuel benefit charge increases to £23,400.

Please note that this factsheet is for general information purposes only. Professional advice should be obtained before action is either taken or refrained from as a result of information contained herein.
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