

## UK Employee Benefits: Tax Changes

The UK government has recently decided to reform the methods by which taxable employee benefits in kind ('BIK') are treated. This F&L Info Sheet outlines what's new.

### Position up to 5 April 2016

Up to 5 April 2016, any taxable fringe benefits (and in some cases, reimbursed expenses) need to be declared by employers on a form P11D and sent to the UK tax authorities (HMRC). The P11D details any employer National Insurance Contributions (the UK Social Security system).

The tax has usually been collected via adjusting the 'tax code' for each employee (which tells the payroll provider the basis for collection of income tax).

It has also been possible to 'informally' make adjustments via the payroll to collect tax that is due on the benefit (by including a notional amount of the benefit). However, it has still been the case that even where this informal approach is taken, the P11D form may still be required.

### Changes from 6 April 2016

As part of recent tax legislation, the Government has formalised the 'payrolling' of benefits and they have now put it on a statutory basis. Where this new, optional approach is taken, the P11D form will no longer be required (although employees will still need to be supplied with a summary of the benefits provided).

They are also exempting some low value benefits from tax altogether (see Trivial BIKs further on).

The new legislation will allow all benefits to be payrolled with the exception of vouchers and credit cards for private use, living accommodation and some interest free or low interest loans provided to employees.

If this is the case, the tax code adjustment will be removed and the tax collected via a notional additional payroll amount.

The employee may still have some residual amounts shown in their tax code for any underpayment of tax on the benefit in previous years.

Employees should be advised to contact their tax office to discuss the code if they have any queries.

The single P11D(b) form and the accompanying National Insurance Contributions will still need to be submitted to HMRC.

### What do you need to do before 5 April 2016?

In order to use the new procedure, the benefits must be registered with HMRC in advance of 5 April 2016 so that HMRC can issue a new tax code for the employee.

It will no longer be possible to informally collect tax via the payroll.

It is therefore vital that employers consider whether they wish to use the new service now so that the appropriate arrangements can be made.

After 5 April 2016, the next opportunity to use the new service will be from 6 April 2017.

Once registered, the benefit will be automatically carried forward in the payroll, unless there are changes made to the amount or the type of benefits, or the employee leaves the employment.

Payroll providers / departments will then need to be advised of a reasonably accurate estimate of the benefits that will be supplied to each employee and ensure they keep this up to date as things change.

As a result, there may be some additional ongoing work on a monthly basis to ensure that these are updated appropriately.

### Trivial Benefits in Kind (BIKs)

The government is also intending to include a statutory exemption for trivial BIKs (defined as up to an annual limit of £50 cash equivalent per BIK) from the same date.

Any benefits that are under this limit will no longer be taxable and will not need to be reported to HMRC in any form. This legislation is due to take effect from 6 April 2016.

### Next Steps

If you think a non-taxable UK establishment may be the right way for you to initiate your globalisation strategy, please contact either our London or San Francisco office for a more detailed discussion and a chance to explore some of the additional tax, legal and commercial implications.

*Updated March 2016. The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.*

### For more information, contact:

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