

Taxing Benefits in Kind through your payroll

From April 2016 it will be possible to arrange with HMRC that most benefits in kind will be taxed through your payroll, instead of being reported on form P11D and included in your employees' PAYE codes.

Some employers already do this on an informal basis, and HMRC is now formalising this process. HMRC are keen on this because, where this system is used, they will no longer have to process forms P11D and make sure that the correct deductions are included in PAYE codes. It can also be better for employees, because if benefits change from year to year (especially with bigger benefits such as company cars) the correct tax should be collected each month via payroll.

What are the benefits for the employer and employee?

If all benefits are taxed through payroll, you will no longer have to complete the annual P11D forms (although it will still be necessary to complete a form P11D(b) and pay over any Class 1A National Insurance as a separate amount each year).

Employees will have the welcome assurance that they have paid the right amount of tax on their benefits in kind, and so there will be no surprises after the end of the tax year. This could be particularly important for new employees, who start to receive a benefit for the first time, which might not ordinarily be picked up for over twelve months.

And the disadvantages?

Instead of collating the benefits in kind provided to employees after the end of the tax year, this will have to be done each month (and in time to provide the figures to your payroll department before the monthly payroll run).

How will this work in practice?

From April 2016 all employers who want to do this will have to register in advance via the Government Gateway and provide an indication of the benefits which will be included and the employees involved. Agents will not be able to do this on your behalf. Employers who use a payroll bureau or agent to deal with PAYE may not already be registered with the Government Gateway and will have to do so before they can register to use this scheme.

Employers will have to register before 6 April 2016 for the 2016/17 tax year. This is so that HMRC have time to amend employee's PAYE codes to remove any deductions for benefits in kind which are now going to be taxed through PAYE direct. HMRC's guidance on this subject suggests that it would be best to register before the annual PAYE coding process, which usually starts around 21 December but it is obviously too late now to do that.

It will also be important to check that your payroll software allows this, because the benefits will not be subject to either employer's or employee's NIC. This will continue to be reported on form P11D(b) after the end of the tax year, and paid in July. HMRC's basic PAYE tool does not support this at the moment.

It will not be possible to payroll all benefits. The following are specifically excluded –

- Vouchers and credit cards
- Living accommodation
- Interest free and low interest loans

It will not be necessary to include all benefits or all employees in the reporting, but you will need to notify all affected employees of the change.

If you want further information, guidance from HMRC is available here –

<https://www.gov.uk/guidance/paying-your-employees-expenses-and-benefits-through-your-payroll>

There is then a link to click through for the registration process.