

DomesticPaye Guide to Benefits in Kind

Benefits in Kind are simply items that you provide to your employee that HMRC considered to be a benefit to them and as such should be considered as part of their taxable income. During July of each year employers across the country must report to HMRC a taxable value (effectively giving a figure to the perhaps less tangible benefit) for each benefit that has been paid to each employee. This report is called a P11D and they can be quite complex and time consuming for both the employer and employee.

The key thing to note before we go into detail is that DomesticPaye will organise your benefits when you make them known to us. The rest of this PDF is to try to explain the process ahead.

Some popular examples of benefits could be:

- A car that is used for personal use provided by the employer
- Accommodation not within the family home
- Health Insurance
- Gym membership

The tax that is paid in addition to the benefit comes in two parts:

Employers NI which is paid at a rate of 12.8%
Income Tax which is currently charged at 20%

The process that DomesticPaye uses to calculate the taxable amount of the benefit in most cases is quite straightforward. For example if you provide £500.00 in free personal gym membership to your nanny then we would report a £500.00 taxable benefit. This would then amount to your nanny paying 20% of £500.00 in Income Tax and you the employer paying 12.8% of £500.00 in Employers NI.

Things get trickier as we start to calculate the benefit on items that have a less straightforward tangible value or are affected by government incentives such as cars.

Benefit on Cars

HMRC have implemented incentives to Employer/Employee to provide employees with cars that have a lower less polluting CO2 emission. This incentive simply means that the lower the amount of CO2 the car produces the lower the percentage amount used to calculate the tax payable.

For example if you have a petrol car that cost £15,000.00 new including all accessories and it has a low CO2 emission figure of 130 then we would apply a percentage of 15% to work out the tax due.

e.g $£15,000.00 \times 15\% = £2250.00$ (Taxable Value)

$£2250.00 \times 12.8\% = £288.00$ (Employer NI Charge)

$£2250.00 \times 20\% = £450.00$ (Income Tax Charge)

If you compare this to a more polluting performance car with a high 255 CO2 rating then the results are very different.

e.g $£15,000.00 \times 35\% = £5250.00$ (Taxable Value)

$£5250.00 \times 12.8\% = £672.00$ (Employer NI Charge)

$£5250.00 \times 20\% = £1050.00$ (Income Tax Charge)

As you can see simply due to a cars emission HMRC receive £984.00 more per year in taxes.

The chart below gives an example of how much tax you would pay on a petrol car with a Taxable Value of £15,000.00 depending on its CO2 emissions. As you can see from the amounts there is quite an incentive to go for a greener car.

| CO2 Emission Figure | Applied Percentage | Employers NI Amount £ | Income Tax Amount £ |
|---------------------|--------------------|-----------------------|---------------------|
| 130 | 15% | 288.00 | 450.00 |
| 135 | 15% | 288.00 | 450.00 |
| 140 | 16% | 307.20 | 480.00 |
| 145 | 17% | 326.40 | 510.00 |
| 150 | 18% | 345.60 | 540.00 |
| 155 | 19% | 364.80 | 570.00 |
| 160 | 20% | 384.00 | 600.00 |
| 165 | 21% | 403.20 | 630.00 |
| 170 | 22% | 422.40 | 660.00 |
| 175 | 23% | 441.60 | 690.00 |
| 180 | 24% | 460.80 | 720.00 |
| 185 | 25% | 480.00 | 750.00 |
| 190 | 26% | 499.20 | 780.00 |
| 195 | 27% | 518.40 | 810.00 |
| 200 | 28% | 537.60 | 840.00 |
| 205 | 29% | 556.80 | 870.00 |
| 210 | 30% | 576.00 | 900.00 |
| 215 | 31% | 595.20 | 930.00 |
| 220 | 32% | 614.40 | 960.00 |
| 225 | 33% | 633.60 | 990.00 |
| 230 | 34% | 652.80 | 1020.00 |
| 235 | 35% | 672.00 | 1050.00 |
| 240 | 35% | 672.00 | 1050.00 |
| 245 | 35% | 672.00 | 1050.00 |
| 250 | 35% | 672.00 | 1050.00 |
| 255 | 35% | 672.00 | 1050.00 |

Naturally as the price of the car increases the taxable benefit also increases, so keep in mind that providing a small cheap car to an employee gives a much lower tax charge than an executive expensive car.

For DomesticPaye to calculate the taxable value of the car that you provide to your employee we will require a copy of the V5 document and the original purchase price of the car including any accessories.

DomesticPaye will bill you immediately for the Employers NI part of the benefit however HMRC will issue a new tax code for your nanny to collect the Income Tax due on the benefit.

This in itself can be problematic for employers who agree net arrangements with an employee. Occasionally a nanny will change jobs between the benefit declaration being received and the revised tax code being issued. This would then leave a new employer to pay the increased tax burden that the nanny gets.