

# Income Tax and Benefits in Kind

## 1. Introduction

- 1.1 Some employees may be provided with a benefit in kind, that is a non monetary reward, which for example may take the form of the use of a car, the use of living accommodation, vouchers exchangeable for goods or private medical insurance.

*Tax law requires that a taxable benefit be reported after the end of the tax year. The tax will normally be collected by amending the employee's tax coding. The employee pays no National Insurance contributions but the employer pays Class 1A NICs*

- 1.2 The pecuniary liability of an employee e.g. his/her home telephone rental may be met by the school.

*Where a school meets the pecuniary liability of an employee, this must be subjected to tax and Class 1 NICs when paid.*

- 1.3 In reimbursing business mileage travelled a profit element may arise.

*The profit element must be subjected to NICs when paid, but for tax purposes will be treated as a benefit in kind.*

## 2. Schools Responsibilities

- 2.1 To ensure that where appropriate payments are made through the payroll.

- 2.2 To record benefits in kind to enable an annual return to be sent to HM Revenue & Customs to meet statutory deadlines.

## 3. Principles

- 3.1 If any employee earning in excess of £8,500 including expenses and benefits is provided with a benefit in kind then it is necessary to report the value of the benefit to HM Revenue & Customs (HMRC) on form P11D in accordance with the statutory timetable.

- 3.2 Living accommodation, non-cash vouchers and credit cards and credit tokens are taxable irrespective of the level of salaries or wages.

- 3.3 Some of the more common benefits provided to employees are, company cars, vans, medical insurance and clothing that is neither protective nor has a visible logo.

- 3.4 In law all reimbursed expenses are liable to income tax. However, an agreement may be sought from HMRC that exempts certain expenses incurred in carrying out the duties of the employment. This is called a dispensation. Some benefits such as payments from an HMRC approved suggestion scheme although in law taxable are covered by an extra statutory concession, which is an acceptance, by HMRC that such items will not be

subject to tax. In addition there are some items that are covered by specific legislation such as free car parking at or near the place of work.

- 3.5 When gifts are made to staff, purchasing them from the school voluntary fund will create a taxable benefit for the employee. To avoid this happening it is recommended they be purchased from the school PTA or a school social fund is set up with all staff making regular payments for the purchase of leaving gifts, flowers etc.

#### **4. Reporting Process**

- 4.1 For schools using Capita Business Services TRENT system, benefit in kind forms are sent out in March each year to be completed and returned.
- 4.2 Corporate Finance will then arrange for the benefits to be reported to the Inland Revenue.
- 4.3 Schools using Capita Wispay, or having any other payroll arrangements, i.e. those with a separate PAYE reference will need to arrange for submission of forms P11D with their own payroll provider or submit the forms themselves.

#### **5. Expenses**

Where mileage expenses are reimbursed any excess over the HMRC benchmark figure must be reported as a taxable benefit. Mileage paid through the Capita Trent Expenses system is automatically assessed for any profit element.

#### **6. National Insurance**

Class 1A National Insurance is payable on all benefits in kind. Schools will need to budget for this additional cost where benefits have been provided. The current rate is 12.8% of the taxable benefit and this is the same for 2010/2011.