

Making the savings - **Employment Taxes**

As we approach the end of another tax year, we've put together a brief commentary on just some of the issues being discussed by our employment taxes specialists which we believe many employers may either be able to identify with or otherwise find of interest.

Should you wish to discuss how any of these have application to your own business, please do not hesitate to contact either me or your usual Grant Thornton contact.

Childcare Vouchers: don't lose higher rate tax relief after 5 April 2011

This is a significant benefit, worth up to £1,195 p.a. for higher rate taxpayers, (£1,487 for 50% taxpayers) but only if you're already in a scheme before 6 April 2011.

Time is therefore short, particularly if you're an employer wishing to put an arrangement in place before that date. If you think this could be relevant to your workforce, the message is don't delay. Combined with a salary sacrifice arrangement, this could be an opportunity to deliver real value to employees ahead of the new tax year.

P11D dispensations: act now

If you haven't got a P11D dispensation but you pay business expenses for employees (eg travel & subsistence), consider getting one soon!

The advantages are significant, not least reducing the need for entries on forms P11D and therefore the scope for errors and penalties for incorrect returns, but you may also generate NIC savings as well. Once more, if you can get it in place before 6 April 2011, HM Revenue & Customs will usually deem it effective from the start of the current tax year i.e. 6 April 2010.

One note of caution: P11D dispensations are granted on the basis that you have and maintain adequate expenses procedures consistent with it. Do therefore keep your expenses policies under review and your dispensation up to date since failures can lead to a revocation and additional costs in terms of claims for underpaid tax, national insurance, interest and penalties.

PAYE on payments to former employees from 6 April 2011

There's a fundamental change to the rules for taxing payments to former employees about to come into effect.

A 'former employee' for these purposes is someone for whom you've issued the P45, but there are still amounts owing to them - it could be a monetary settlement on the ending of employment or taxable stock option payments, for example.

Currently employers must deduct basic rate tax only from such payments, no matter how much they are for. It is then between the employee and HMRC to work out any extra

tax due, and for the employee to pay that amount at the usual Self Assessment deadline.

From 6th April 2011, code '0T' (on either a week or month one basis) must be applied. The effect of an '0T' code is that it works through the tax rates so if the payment is of sufficient size that some of it needs to be taxed at 40% or 50%, that tax will be recovered at the time of payment. It won't change the amount of tax ultimately due on the payment but it could mean that HMRC will get at least some of it earlier.

The National insurance position is unchanged.

Mobile Workers

Whilst potentially of relevance to any employer with a mobile workforce, using our specialist knowledge of the haulage industry, we have been successfully helping clients to deliver considerable tax and national insurance savings for them and their drivers across East Anglia.

Our advice which involves working with clients in the replacement of some taxable elements of pay with tax-free expenses continues to generate interest and should you require any further information, we will be happy to discuss this with you.

Flexible Benefits: too complicated?

It shouldn't be! The fact is, how you remunerate your workforce is a key element of the employment proposition you make to them. By getting this right you can target rewards at a more personal level and on a cost efficient basis.

Key messages are:

- know your workforce and what will appeal to them
- communicate changes effectively
- don't be afraid to start small

Many schemes start with a small range of options, develop as employee knowledge grows, and do not need a costly software platform to deliver this.

Tax Efficient Benefits

Whether implemented as part of a wider flexible benefits package, or on a stand alone basis, as part of a salary sacrifice arrangement or otherwise, tax efficient benefits can add significant value.

Whilst with regard to pensions, care is required to ensure that contributions don't fall foul of the clawback provisions which can restrict an employee's higher rate tax relief, this is one of the most common examples of a tax efficient benefit and one that is high on the agenda due also to the need for employers to review their pension provision ahead of auto enrolment being introduced from October 2012.

Surveys suggest that a majority of employers may already fund pensions through salary sacrifice but many are still put off through concerns as to the administration. These are often easily overcome and should not detract from accessing the NIC savings for both employer and employee which can bring potentially significant overall savings. Grant Thornton are well experienced in all aspects of implementation for employers including liaison with HM Revenue & Customs on their behalf and will be happy to assist.

Pensions are of course just one consideration and it's important not to overlook other easy to implement examples of tax efficient benefits including:

- annual healthchecks
- mobile telephones
- childcare vouchers (see above)
- workplace training
- annual holiday entitlements

All of which are regularly included in remuneration strategies.

Record Keeping

If there's one message our experience in dealing with HMRC enquiries causes us to reinforce, it's the importance of record keeping. Remember, in arguing that a payment wasn't taxable or that a benefit in kind didn't arise, the onus of proof is on the employer. Unfortunately, it's the frequent absence of adequate records that produces a history of HMRC successfully going on to make mountains out of what might otherwise have been pretty small molehills!

Take an example: Your local HMRC Compliance officer spots someone loading their DIY shopping into a company van. In the absence of a specific prohibition on private usage or mileage records for the whole fleet, you can understand why, focused on increasing tax yields, he surmises this isn't an isolated occasion and extrapolates that one BIK charge across the whole fleet over 4 years!

We've used vans as an example here because they're a favourite HMRC target, but inadequate record keeping can trip you up in relation to any expenses payment or benefit where a different interpretation could be made. If you would like help in making sure that you do not suffer unnecessary tax leakage in this regard, please do let us know. The advice may pay for itself!

An issue for Local Government: Procurement Cards

Mindful of the above, we sound a particular note of caution regarding the issue of procurement cards to employees which HMRC are well aware of. Are you keeping receipts as well as just card statements, how do you control use, can you evidence there's no private element being reimbursed? By reviewing procurement card processes we can reduce the risks of HMRC challenge, reduce expenditure, improve VAT reclaims.

Action

For further information please contact

John Weston

Kingfisher House
1 Gilders Way
St James Place
Norwich
Norfolk
NR3 1UB

T: 01603 203213

E: john.f.weston@uk.gt.com