Orchid Financial Services Ltd

Employee benefits

How to keep staff onside by providing workplace perks.

Most employees like to receive perks.

They have the psychological benefit of making them feel valued, which can engender goodwill and loyalty and help retain high calibre individuals.

Consequently, it can be cost-effective for you to provide employees with non-cash benefits as the perceived benefit can exceed the cost of provision in monetary terms.

The tax system has a role to play as it encourages (in the form of tax exemptions) the provision of certain benefits, while taxing others heavily.

Benefit-in-kind statistics published by HMRC in June 2017 reveal 3.69 million people received taxable benefits-in-kind in 2014/15 – worth £7.6 billion.

The statistics also indicate that cars, fuel and private medical insurance remain the highest value benefits-in-kind.

The most popular taxable benefit was private medical insurance, enjoyed by 2.35 million workers in 2014/15.

Thus, the provision of non-cash benefits can be beneficial to employees, employers – and the Treasury.

However, not all benefits are equal and if you're a small business owner you should consider this when offering non-cash benefits to staff.

This article looks at some of the most popular benefits available to workers and the associated tax and national insurance (NI) implications.

Private medical insurance and other health benefits

It is in your interest as an employer to have fit and healthy employees.

Consequently, benefits that encourage your staff to be healthy and enable any health issues to be dealt with quickly are popular as they can help minimise sickness absence and increase productivity.

It's not surprising private health insurance is the most popular taxable benefit.

Workers like the reassurance it provides – and group policies mean employers can often secure cover more cheaply than that available to individual workers.

From a tax perspective, the provision of private medical insurance, regardless of whether the policy covers just the employee or members of the employee's family as well, is a taxable benefit.

The amount on which the employee is taxed (the cash equivalent value) is the cost of the employer providing the benefit, less any amount met by the employee.

Where group policies cover several employees, the costs should be apportioned in a just and reasonable manner.

The employer must pay class 1A NI at 13.8% on the taxable value.

Example

An employer provides private medical insurance for an employee, which costs £400 a year. The employee makes no contribution towards the cost.

The taxable value is £400. If the employee is a higher-rate taxpayer, they will pay tax of £160 (£400 @ 40%) on the provision of the benefit. The employer will pay class 1A NI of £55.20.

While the provision of private medical insurance comes with an associated tax bill, there are some health-related benefits than can be provided free of tax.

Workers can enjoy one health screening assessment and one medical check-up per year, free of tax. A similar exemption is available for eye tests required under the Health and Safety at Work etc Act 1974.

Although there is no blanket exemption for medical treatment, a tailored exemption is available for recommended medical exemption designed to help the employee return to work after a period of absence due to injury or ill health. This is capped at £500 per tax year.

Medical treatment provided abroad while the employee is overseas on business is also exempt from tax.

Thorney Lakes Golf Centre Thorney
Peterborough PE6 0TJ
0844 414 0730 info@orchidfinancialservices.com

Employee benefits

Childcare

For working parents, particularly those with young children, childcare costs can be significant.

A new scheme to help with the costs of childcare was launched in April 2017. However, the government has delayed fully rolling out the system until March 2018 after some parents experienced technical difficulties with the website.

Under the scheme, eligible parents can open an online account in which they can deposit money to pay for childcare costs.

For every £8 deposited, the government will add another £2 up to a maximum of £2,000 a year (£4,000 where the child has a disability).

Although the new scheme will eventually replace the existing exemptions for employer-supported childcare and childcare vouchers, this scheme can remain open to new entrants until April 2018.

Once in the scheme, employees can continue to benefit from the exemption as long as you continue to offer the scheme.

The tax-free amount depends on when the employee joined the scheme and the employee's marginal rate of tax.

For staff who joined your childcare scheme before 6 April 2011, the tax-free amount is £55 per week.

For workers joining on or after that date, it is:

- £55 a week for basic-rate taxpayers
- £28 a week for higher-rate taxpayers
- £25 a week for additional-rate taxpayers.

You can continue to offer childcare and childcare vouchers via salary sacrifice arrangements without being caught by the new valuation rules.

Company cars

Despite year-on-year tax rises, company cars remain a popular benefit, not least due to the convenience and the level of prestige they offer.

For employers, providing staff with a company car can offer you peace of mind from knowing your employees are driving reliable vehicles of a certain standard (and upholding, perhaps, a certain company image).

However, is it possible to have a company car without a massive tax bill? The answer is yes – if you choose wisely.

Company cars are taxed by reference to their list price.

The amount charged to tax depends on the emissions level of the car – vehicles with high emissions are taxed more heavily than low-emission vehicles.

The charge is capped at 37% of the list price. You also pay class 1A NI on the amount charged to tax.

Therefore, to enjoy a low-cost company car, the trick is to choose a cheaper, lower emission model.

Going green

Looking ahead, there are further savings to be had by going green.

Since the end of the zero charge for zero-emission cars, electric and ultra-low emission cars have been taxed by reference to the appropriate percentage for the 0 to 50g/km CO_2 emissions band.

This is set at 9% for 2017/18, rising to 11% for 2018/19.

However, new bands are being introduced from 2020/21, which for cars in the 1 to 50g/km CO_2 emissions band take into account the electric range of the car.

The percentage for cars with zero emissions is set at 2%, as is that for cars with emissions of 1 to 50g/km and an electric range of 130 miles or more.

The percentage set for cars in that band increases from 2% to 5%, 8%, 12% and 14% as the electric range decreases.

As electric cars become more common, they offer the opportunity to provide tax-efficient company cars.

Furthermore, HMRC does not currently regard the provision of electricity as a fuel (so no fuel benefit) and you can claim 100% first-year capital allowances on electric charging points.

Talk to us about providing benefits in kind.