

Tax breaks, salary sacrifice and tax law

1st October 2008



Tax breaks, salary sacrifice and tax law

- Salary sacrifice.
- How it works.
- What will it impact?
- Common misconceptions.
- The HMRC view.
- Benefits in Kind.
- Established benefits.
- New generation benefits.
- Emerging benefits.
- Problem areas.
- The future.

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Salary sacrifice

- 2 Key tax issues
 - salary is foregone before entitlement arises
 - salary is foregone on a permanent basis
- Must consider “lifestyle” events and scheme “rules”

FUNDAMENTAL TO A TAX COMPLIANT SCHEME

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How it works (1)

Current costs for an employee earning £25,000 p.a. gross with childcare costs of £2,860 p.a.

Gross salary required to fund childcare	£4,145
$(£2,860/69*100 = £4,145)$	

Employer cost of funding childcare	£4,675
$(£4,145 + 12.8\% \text{ NIC})$	

Assumes employee pays tax at 20%, employees NIC is charged at 11%

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How it works (2)

Current childcare costs for an employee earning £25,000 p.a. gross with childcare costs of £2,860 p.a. Employee enters childcare scheme

Gross salary required to fund childcare	£2,860
- Previously needed	<u>£4,145</u>
- Gross saving	£1,285
- PAYE/NIC deductions	£ 398
- Additional NET pay available	£ 887
Employer saving (£2,860 @ 12.8%)	£ 366

Assumes employee pays tax at 20%, employees NIC is charged at 11%



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How it works (3)

Employee earning £45,000 p.a. gross wants to acquire a bicycle costing £1,500 (inc VAT)

Gross salary required for bicycle	£2,542
(£1,500/59*100 = £2,542)	

Employer cost of funding bicycle	£2,867
(£2,542 + 12.8% NIC)	

Assumes employee pays tax at 40%, employees NIC is charged at 1%

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How it works (4)

Employee earning £45,000 p.a. gross chooses to acquire bicycle costing £1,500 (inc VAT) via Cycle to Work (CTW).

Gross salary required for CTW package	£1,500
- Previously needed	<u>£2,542</u>
- Gross saving	£1,042
- PAYE/NIC deductions	£ 427
- Additional NET pay available	£ 615
Employer saving - NIC (£1,500 @ 12.8%)	£ 192
Employer saving – VAT (£1,500/47*7)	<u>£ 223</u>
	£ 415

Assumes employee pays tax at 40%, employees NIC is charged at 1%

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Savings summary

	Employee	Employer
Childcare	£887	£366
CTW	£427	£415

Note: Assumes childcare of £2,860 pa with a basic rate taxpayer

Assumes bicycle costing £1,500 supplied to a higher rate taxpayer

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What will it impact?

- Pension/Life cover entitlement?

Anything your organisation uses gross pay as a benchmark for:

- pay rises
 - bonuses
 - non statutory sick pay, maternity pay.
- Statutory maternity pay and post employment benefits.
 - Tax credits and student loan repayments.

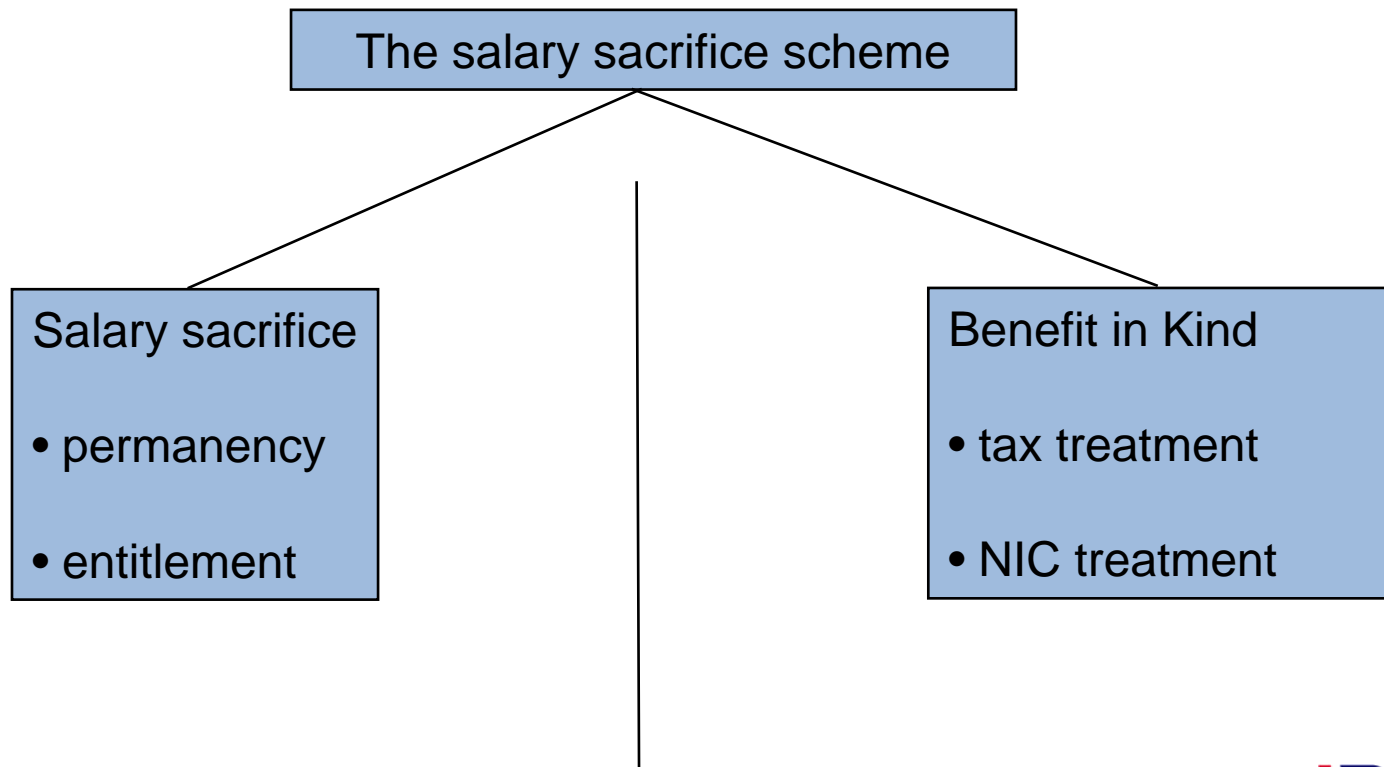
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Common misconceptions

- -“Employees lose entitlement to state benefits.”
- -“Other benefits will be affected.”
- - “We can’t show it on our payslips how we’d like to.”
- - “We don’t need anyone to help us.”
- - “We will have this implemented by December!”
- - “Surely the Revenue will put a stop to it.”
- - “The Revenue don’t like it.”

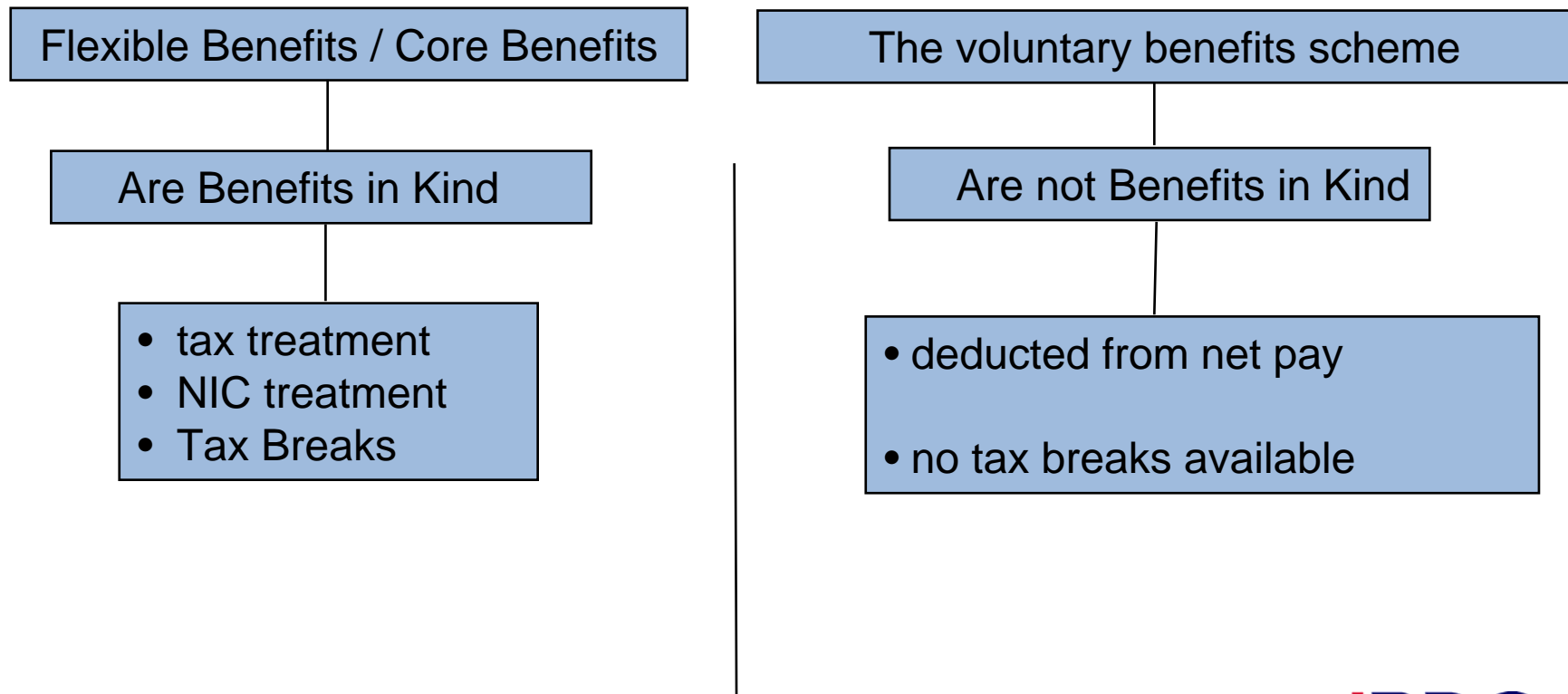
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The HMRC view



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The HMRC view



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How are benefits in kind (BIK) taxed – basic principles (1)

- What are the employees earnings?
- Cash equivalent is the cost to your organisation of providing the BIK.
- Special calculation rules for certain BIK, e.g. company cars, loans, accommodation.
- Specific tax breaks for other BIK.

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How are BIKs taxed - basic principles (2)

- They are 'normal' benefits for tax reporting
- This can mean employees receive a P11D for the first time if the BIK is taxable
- Use spreadsheet reporting?
- Ask HMRC to code 'in year'?
- Communication is therefore essential

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How BIKs are subject to National Insurance Contributions (NICs) – basic principles (1)

- Liable to Class 1 – both employees and employers NICs are due
 - Deductible and payable during the tax year
- OR
- Liable to Class 1A NIC – employers only
 - Payable by July 19th after the tax year

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How BIKs are subject to National Insurance Contributions (NICs) – basic principles (2)

- If covered by a tax break the BIK will also be NIC free (e.g. childcare vouchers)
- Other non-cash vouchers generally liable to Class 1 (e.g. retail vouchers)
- Most common BIKs are liable to Class 1A

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Established benefits

- Pensions:
 - saves NIC only (tax relief already given)
 - first salary sacrifice benefit
 - can operate on an all inclusive basis
- Childcare:
 - financial cap
 - government backed, very common
 - definition of qualifying childcare expanded 1st September
- Cycle to work:
 - commuting test
 - no financial limit
 - government backed, getting broader acceptance

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Established benefits

- Share schemes:
 - All employee share incentive plan
 - TAX/NIC free up to £1,500 per annum *if*
 - shares held for 5 years
 - can also be free from Capital Gains Tax

- Executive scheme
- TAX/NIC deferral only
- Bonus sacrifice/waiver
- PAYE/NIC arises when shares vest
- Can offer matching shares

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New generation benefits

- Flexphone (until January!):
 - Tax/NIC free
 - One mobile per employee
 - Covers handset and web/airtime costs
- Car Parking:
 - Tax/NIC free
 - At or near the place of work
 - Park and Ride?
- Wine:
 - P11D Benefit BUT can save employees NICs
 - Usually a quarterly delivery

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Emerging benefits (1)

- Bus schemes:
 - Tax/NIC free
 - Must include commuting journey
 - Public transport only (not coaches, trams or trains)
 - HMRC has approved schemes
- Canteen schemes:
 - Tax/NIC free
 - On site meals/refreshments
 - HMRC position

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Emerging benefits (2)

- Work related training:
 - Tax/NIC free
 - Broad definition of training
 - Can include loan of assets
- Company car schemes:
 - NOT Tax/NIC free
 - usually offer “green” cars
 - provided under a comprehensive lease
 - normal P11D reporting requirements apply

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Potential issues (1)

- Perception by staff
- Communication
- Timescales
- Technology – how will it be delivered?
- Fulfilment

AND

- The Hot potato!

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Potential issues (2)

Continued Provision of Benefits during unpaid leave

- Non cash benefits can't be withdrawn during unpaid leave
- Why? - Equal Treatment Directive not fully implemented
- How does this apply to benefits provided via salary sacrifice?
- Who bears the cost?
- Effective from 5th October 2008

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Potential issues (3)

- Pensions:
 - timing, trustees meetings
 - use of savings
- Childcare:
 - financial limit
 - single parents
- Cycle to work:
 - staff under 18
 - “topping up”

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Potential issues (4)

- Share schemes
 - business must be suitable for a share scheme
 - offer must be on similar terms to all employees
- Flexphone:
 - only one network
 - existing contracts
- Car Parking:
 - fit with the “green” agenda?
 - availability for multi-site employers
- Wine:
 - image?
 - supply chain issues

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Potential issues (5)

- Bus schemes:
 - lack of knowledge/belief in concept
 - transport providers and route coverage when multi-site
 - will not cover other forms of commuting
- Canteen schemes:
 - Perception by employers and caterers
 - HMRC position (EIM 21675)

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Potential issues (6)

- Work related training:
 - Scope needs to be defined clearly
 - HMRC agreement
- Company car schemes:
 - model choice
 - additional P11D reporting

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The future

- Growth in the market
- Continued nervousness
- Closer attention from HMRC
- Diversity and choice
- Maturity

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Thank you for listening

shawn.healy@bdo.co.uk

020 7893 2433

