



ET4B technical update: Employer assistance with Healthcare costs

In 2014 a new "health and work assessment and advisory service" will be created, whose main focus will be to ensure that employees off sick are able to return to work as soon as possible. At the same time a recommendation was made that expenditure by employers on medical treatment and vocational rehabilitation, incurred as a result of "interventions" by this new 'Independent Assessment Service' or 'IAS' (i.e. specifically targeted at keeping employees in work, or speeding their return to work, who would otherwise be absent due to sickness) should attract some form of tax relief.

This proposed relief is currently subject to legislative confirmation, however the current suggestion is that the tax relief should have a £500 maximum and should only apply if the employer agrees to fund all such 'IAS interventions'. The initial proposals have attracted considerable scepticism, which has only been partly addressed in the wider outline consultation process which has recently been concluded.

In the meantime this raises the wider question of which types of medical or welfare costs employers may already legitimately meet, when staff are suffering ill-health, without incurring tax or NIC charges. The following provides a brief summary:

- Industrial and workplace injuries etc: If an employee suffers personal injury at work, the employer may wish to provide medical treatment as part of the rehabilitation process. Whilst there is no statutory exemption for such costs, case law does suggest that payments for the relief of 'distress' are non-taxable (this would potentially include the medical costs and any appropriate financial compensation). The personal injury involved here may of course be psychological as well as physical.

- Health screening and eye tests: If an employer provides an annual medical check (as opposed to the treatment of any identified medical condition), or pays for a check-up to assess the employee's fitness to return to work, we would expect HMRC to agree such costs are non-taxable. Similarly an annual eye-test, or any contribution toward corrective lenses (if required solely for work purposes e.g. VDU use), should be viewed by HMRC as a tax free payment.

- Welfare Counselling: There is a statutory exemption for welfare counselling which can cover employee concerns on many personal as well as work issues e.g. stress factors, issues in the workplace, alcohol and drug dependency etc. However most medical treatments, and advice on personal legal or financial matters (other than advice on debt problems) will not be covered.

- Private medical costs and insurance: As you would expect; most such costs do give rise to a taxable benefit (and employer's NIC will also be due). In the case of medical insurance, the cost of the premiums, rather than the cost of any claim, will be used to measure the benefit (HMRC agreement on the basis of taxation will probably be needed, where a 'self-insured' medical trust is operated by the employer). Tax free exceptions can arise if the employee is paid at a rate of less than £8,500 pa (possibly part-time staff), if the premium covers overseas business travel abroad, and (in some cases) where insurance payments are made in respect of retired staff.

- Ill-health employment termination: An exemption can arise if a compensation payment is made in respect of an employment termination, where that termination is made solely as a result of the employee's ill health. The illness does not necessarily have to be caused by the employment, but must be severe enough to prevent the employee undertaking that type of work again. Potentially this tax exemption is completely unlimited (e.g. there is no £30,000 ceiling).

In conclusion, we would strongly advocate that employers explore each of these possible exemptions in advance of making any such payments. Many of the exemptions are not 'automatic'; therefore it may be necessary to engage with HMRC (e.g. as part of an updated dispensation or PSA application), and in some cases provide independent medical evidence to back up the exemption claim. However the potential employers NIC savings alone can make this an extremely cost-effective exercise.



Employment Tax for Business

Please contact ET4B if you would like to utilise our considerable experience in this area, in seeking HMRC's agreement.

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