



## Year End reporting – Top Ten for PAYE Settlement Agreements (PSAs)

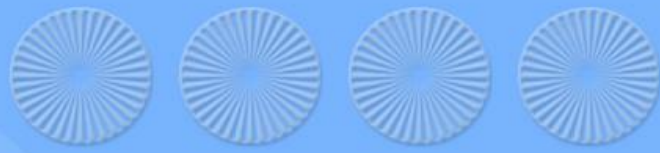
1. **Ensure that the scope your PSA is agreed in writing.** In general it is possible to include benefits within your PSA, and exclude them from your payroll and P11D returns, if they are:
  - Minor items, even if recurring.
  - Irregular benefits; no monetary limit applies to this category, so for instance an expensive one-off reward holiday might be included.
  - Impractical for inclusion on forms P11D. This last category permits reporting of the total cost e.g. where amounts cannot easily be apportioned between recipients - so you don't have to check who ordered an extra bottle of wine on that staff Christmas party!
2. **Adhere to all agreed time scales.** Remember that PSAs need to be renewed on an annual basis, and agreed at the latest prior to the 6 July following the end of the relevant tax year. If it is intended to seek agreement to cover items which otherwise would have been liable to PAYE tax and Class 1NIC, agreement is required before the payments are made. In this respect it is suggested that agreement for such items be obtained prior to the start of the tax year.

In general HMRC will ask that the PSA data be submitted by either 31 July or 31 August following the year end. However any such submission date is not a statutory obligation, so getting the content right is more important than observing this 'deadline'. To avoid an additional interest charge, payment must then be made to HMRC by the following 19 October (22 October for electronic payment) at the latest.

3. **Exclude anything which is not taxable on basic principles,** e.g. if provided to 'lower paid' employees. With a few exceptions (notably vouchers), benefits to staff remunerated at under £8,500 pa (perhaps part-time staff) remain non-taxable up to and including the tax year 2015/16. This Lower Paid limit has however been withdrawn from 2016/17 onwards. Benefits provided to non-resident workers based overseas may also be outside the scope of UK tax and NIC.
4. **Do not include items which are inappropriate.** HMRC does not expect the PSA to be used to account for benefits provided to 3<sup>rd</sup> party contacts etc. Whilst some exemptions do exist for relatively minor sums, in most cases such amounts will be treated as 'business entertaining' and disallowed in the firm's tax computation. Alternatively if a 3<sup>rd</sup> party is provided with a reward for a specific service or achievement, it may be appropriate to enter into a separate 'Taxed Award Scheme' with HMRC.
5. **Be aware of and claim all available tax exemptions.** For instance it is vital to ensure all staff entertaining is correctly categorised and exempt sums excluded. Where subsidies are generally available to staff (e.g. there is a staff canteen), then all types of reasonable food and drink provided on the employer's premises are tax and NIC free. We do still see individual HMRC officers interpreting this point incorrectly e.g. arguing that canteens must be present at every location to be 'available' to all', or that working lunches are all taxable.

As regards annual social functions available to all staff; the £150 per head exemption is a cumulative figure where there is more than one function (but once exceeded the whole event creating the excess becomes taxable). Cost per head includes all attendees e.g. including any family attendees.

Numerous statutory exemptions still exist in other areas; including awards for long service, certain payments under staff suggestion schemes, and late night taxis. So if you occasionally have to work late at night, order that office pizza and take a cab home, both will probably be exempt!



We would also suggest you look closely at de minimis items, as 'trivial' benefits should be exempted. A £50 per item statutory trivial benefits exemption was introduced in April 2016, with HMRC normally permitting exemption for similar (non-reward based) sums in earlier years. Exemption should not be refused simply because the large number of staff receiving this makes the overall cost relatively high.

6. **Ensure sums are inclusive of VAT.** Where goods or services are purchased externally (e.g. hotel costs, staff parties, legal fees etc) it is HMRC's stated view that any benefit value for P11D or PSA purposes is the VAT inclusive amount (whatever your rate of input tax recovery). This is an easy one to miss, especially if your business records items on a VAT exclusive basis.
7. **Carefully check rates of liability,** and do not overstate the proportion liable at higher rates. If staff go out for a departmental meal, the person picking up the bill and claiming the expense may well be a higher rate taxpayer, whereas some of the recipients may be liable at lower rates. Whilst some degree of estimation (and agreement with HMRC) may be necessary, this will be preferable to settling all liability based on higher rates. Currently a 'higher rate' PSA settlement works out at almost 90% of the net costs (i.e. for a 40% taxpayer). This increases significantly to around 107% if the additional rate of 45% applies.
8. **Plan ahead where possible** in order to reduce your ongoing PSA costs. A good example might be where an employee is considering relocation but their longer term work plans are unclear. Whilst the relocation exemption of £8,000 may be welcome, placing the employee on temporary secondment (i.e. if the new work location is not expected to exceed two years) may provide an *unlimited* exemption for travel, accommodation, and subsistence reimbursements.
9. **Explain the basis of any estimates** or debatable items in your covering letter. HMRC will usually seek to agree the basis of any such PSA calculations in a 'low key' fashion. This will be preferable to negotiating the matter during an Employer Compliance Review, where HMRC will also look at earlier years' treatment in more detail.
10. **Consider seeking HMRC agreement on non-standard expenses item**  
From April 2016 all HMRC dispensations were replaced by a statutory exemption for allowable expenses, which relies on the employer having satisfactory checks and procedures in place. Any non-standard agreement on expenses (e.g. for ad hoc scale rate allowances) will only apply for a maximum 5 year period. We would not however expect applications for updated agreements to be used by HMRC as an excuse for 'fishing trips' i.e. random or blanket reviews of your expenses and benefits policies.

## Contacts

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