

HM

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KEY GUIDE

Making the most of fringe benefits

Introduction

MORE THAN JUST A SALARY

Although the main rate of employee national insurance contributions (NICs) has been reduced to 8% since 6 January 2024, fringe benefits still have a definite tax advantage when compared to conventional salary. Even if there is not much, if anything, in the way of income tax saving, directors and employees can avoid NICs. Certain tax-advantaged fringe benefits will also mean no, or little, NICs for the employer, with these types of benefit particularly suited to a salary sacrifice arrangement. However, where other benefits are concerned, the rate of Class 1A NIC payable by the employer is going to increase from 13.8% to 15% from 6 April 2025.

Private medical and dental cover is by far the most popular taxable benefit, with company cars second. The number of directors and employees with company cars has decreased in recent years, but figures for 2022/23 show a marked increase. Although the company car benefit can easily be very tax inefficient, HMRC figures show a distinct move towards lower emission vehicles, especially those with zero-emissions. Zero and ultra-low emission company cars now account for nearly half of the total.

The October 2024 Budget included changes to company car percentages for the tax years 2028/29 and 2029/30. The changes will see the percentage for electric-only powered cars increase by 2% for each of these two years, with the overall maximum cap going up by one percentage point each year.

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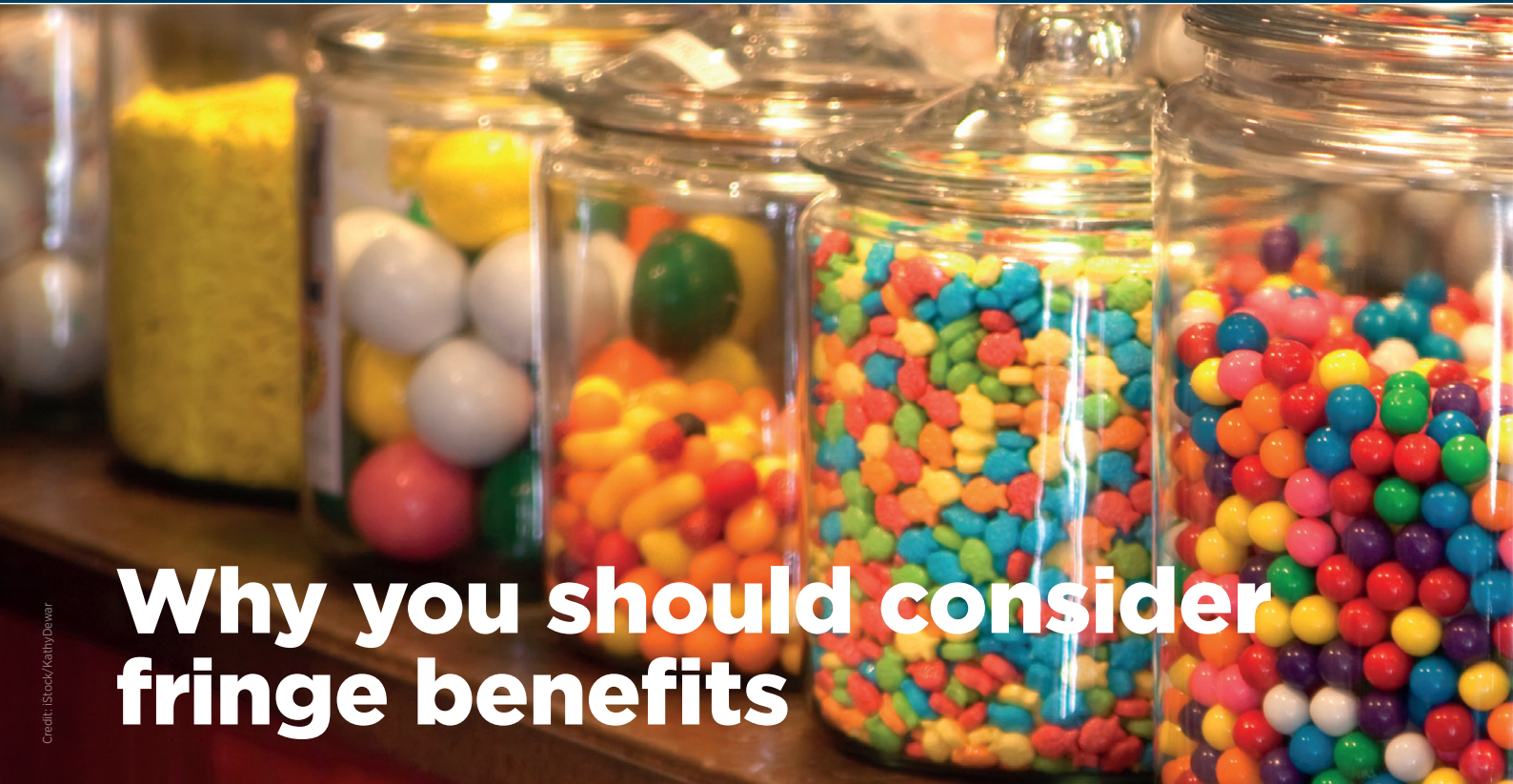
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Credit: Bock/Kathy Dewar

Why you should consider fringe benefits

While pay rises are normally popular, they aren't the only way to reward employees and directors. A fringe benefit is essentially any type of non-monetary compensation, and can be anything from pension provision to medical cover, a company car or the use of a company yacht.

As a director, there might be a tax advantage to taking a benefit rather than the additional income needed to purchase the benefit yourself. As an employer, you will be looking to use fringe benefits to attract, reward and retain employees. Benefits can be provided on top of normal salaries, or they may sometimes be provided as part of a salary sacrifice arrangement.

Some fringe benefits are completely free of tax, whilst most benefits are free of NICs as far as employees are concerned. As an employer, you may well be able to acquire some benefits, such as medical cover, at a discount on what an employee would have to pay for the benefit personally.

IMPLICATIONS OF THE PANDEMIC

With many employees still working either part-time or full-time from home, certain benefits may no longer be worth having. For example:

- Employees may not be able to make much use of fitness club memberships if the gym is located near a workplace and they are partially or wholly working from home.
- Company cars might be seeing little use, but pausing or ceasing the benefit is not easy. For example, just cancelling the car's insurance will make no difference. To pause or cease a company car benefit, the car must be unavailable for a period of at least 30 days, and the employee must not have access to the car.

As long as there is insignificant private use, laptops can be provided tax-free, along with broadband (but not if broadband was already installed).

WELLBEING BENEFITS

Benefit packages increasingly include a range of wellbeing benefits focused on healthcare, childcare, eldercare and green issues. There can be a fine line between those benefits which are tax-free and those which are taxable.

Healthcare

Medical insurance, dental cover and medical treatment will normally be taxable. Insurance cover can extend to family members, with a group policy often used. If the insurer does not allocate the cost of a group policy between employees, then it is apportioned on a reasonable basis.

Your employees can make use of a company gym without any tax implications, whether it is provided free or at a subsidised price. You can also provide healthy food in a company canteen. However, if you pay for a fitness club membership or provide a dining card there is a taxable benefit. You can provide tax-free annual health checks and eye tests (where an employee is required to use a computer).

Planning point

There is an annual exemption of up to £500 where you pay for medical treatment to help an employee return to work following sickness or injury.

Childcare and eldercare

You can provide your employees with a nursery or child-minding facilities on a tax-free basis but, except for the limited childcare voucher exemption (which is no longer open to new entrants), any other childcare support you provide will be taxable. The same applies if you provide financial support to employees that care for elderly parents (eldercare).

However, you can assist your employees with both childcare and eldercare by offering flexible working and working from home – neither of which will result in any benefit implications.

Planning point

You can pay a tax-free amount of up to £6 a week towards the additional costs of an employee who is required to work at home. This could be because they live far away from your office, or because you do not have an office.

Dealing with stress

Flexible working can also help employees deal with stress, especially if they have lengthy commutes or additional responsibilities. It also helps to restrict the amount of overtime.

Many companies now also offer counselling services for employees. There are no tax implications provided the counselling is restricted to welfare issues, such as bereavement, ill health or stress, problems at work, sexual abuse or personal relationship difficulties. The exemption extends to any related medical treatment, such as cognitive behavioural therapy.

Green issues

Cycling to work can be encouraged by providing employees with tax-free bicycles and safety equipment on loan, with the employee having the opportunity to purchase the bicycle at a fair market value following the end of the loan period. Bicycles and safety equipment are often provided under a salary sacrifice arrangement (see page 7 for how this works).

You can also arrange for employees to have cheap or free travel on public bus services, or even go as far as providing a free work bus. However, the provision of a transport pass that covers a wide area (such as the London Oyster card) will not be tax free.

Planning point

If possible, make sure that the conditions for tax-free status for wellbeing benefits are met. The requirements can be quite strict, with the benefit normally having to be available to your entire workforce.

Wearable technology

Wearable technology, such as fitness trackers, smart watches and sport watches, can be used to help employees make healthy lifestyle choices, as well as improving their physical and mental wellbeing. However, the provision of such devices will generally be classed as a taxable benefit.

Retirement

Within set limits, pension contributions made on behalf of employees are free of tax and NICs. It does not matter whether contributions are to a company scheme or to a personal pension scheme. Pension contributions are also often provided under a salary sacrifice arrangement.

CAR BENEFITS

As mentioned above, this traditional company perk can easily be very tax inefficient. What is often overlooked is that a car's age and cost are irrelevant when it comes to calculating the taxable benefit, as is the amount of business mileage. However, the tax cost of having a zero or ultra-low emission company car is significantly less than it is for a car with higher emissions.

- The taxable benefit for a company car is calculated as a percentage of the car's list price, with the percentage determined by the level of carbon dioxide (CO₂) emissions.
- The use of list price means that any discount on the purchase price is ignored, and that the same value continues to be used even when a car is several years old.
- It makes no difference whether a car is bought outright or leased.
- The car benefit covers all of the costs associated with having a car such as insurance and repairs, but not fuel for private motoring.

When it comes to CO₂ emissions, modern hybrid cars generally have much lower rates compared to petrol and diesel variants.



Plug-in hybrid variants have particularly low emission rates. For 2023/24, electric-only powered cars have a 2% benefit-in-kind rate, and they also generate very low running costs (benefit-in-kind rates are unchanged for 2024/25). The list price of an electric or hybrid car always includes the cost of the car's battery. Be warned, however, that this percentage will reach a much less favourable 9% by 2029/30.

Planning point

An employee can contribute up to £5,000 towards a company car, with this being deducted against the list price. Such contributions might be worthwhile if it makes purchasing a lower emissions car affordable. Hybrid variants typically cost a few thousand pounds more than normal cars.

For hybrid-electric motor cars with CO₂ emissions between 1 and 50 grams per kilometre, the electric range of a motor car is relevant in determining the car benefit percentage, as follows:

Electric range	Percentage
130 miles or more	2%
70 to 129 miles	5%
40 to 69 miles	8%
30 to 39 miles	12%
Less than 30 miles	14%

The tax percentage is then:

- For a motor car with a CO₂ emission rate of between 51 and 54 grams per kilometre, the percentage is 15%.

- A 16% base percentage applies once CO₂ emissions reach a base level of 55 grams per kilometre, rising in 1% steps for each additional 5 g/km.

The percentage charge is capped at a maximum of 37%. This cap will go up to 38% for 2028/29, and to 39% for 2029/30.

These percentages will all go up by one percentage point, subject to the maximum percentage of 37%, for 2025/26.

A surcharge of 4% is applied to diesel cars (but not diesel hybrids) unless a diesel car is certified to the Real Driving Emissions 2 (RDE2) standard (which became mandatory from January 2021), subject to the maximum percentage of 37%. You can check whether a diesel car meets the standard online at <https://vehicleenquiry.service.gov.uk/>

Fuel

Where any fuel is provided for private motoring, there will be an extra taxable benefit. This is calculated using the same percentage as for car benefits, but based on a fixed value, which for 2023/24 is £27,800. Unlike other benefits, where an employee's contributions automatically reduce the amount of benefit, there is no reduction for partial contributions towards the cost of private fuel. If the entire cost is reimbursed, there will be no fuel benefit.

There is no fuel benefit for all-electric company cars because electricity is not classed as a fuel. There is also no benefit-in-kind where an employer provides a charging point for employees to recharge their electric or hybrid cars either at home or at work.

Mileage rates

HMRC publishes a set of advisory fuel rates which can be used to reimburse employees for business travel in their company cars without giving rise to any tax liabilities. These rates are updated on a quarterly basis.



Planning point

Paying for all private fuel, especially if quantities are low or if the car has high CO₂ emissions, will eliminate a fuel benefit.

CHEAP LOANS

You might make cheap or interest-free loans to employees, perhaps for them to purchase a season travel ticket or to buy their own car. The good news is that tax is not charged where the value of loans provided to an employee does not exceed £10,000 at any point during the tax year. However, if the £10,000 limit is exceeded by just a few pounds, then this exemption does not apply.

Where loans are taxable, the benefit is calculated as the difference between the amount of interest at HMRC's official rate and the amount of interest actually paid. For 2023/24, the official rate is 2.25%. This rate of interest is quite low compared to interest rates generally, so a cheap loan is currently quite an attractive benefit option.

EXAMPLE**Cheap loan benefit**

On 6 April 2024, Jones Ltd made a £15,000 loan (with an interest rate of 1%) to an employee who wanted to buy a car, with £5,000 being repaid by 5 April 2025. The average amount outstanding throughout 2024/25 is £12,500, so the taxable benefit is £156 (£12,500 x 1.25% (2.25% - 1%)). The benefit for 2024/25 could have been avoided if the interest rate charged had been set at 2.25%, although in any case there will be no benefit for 2025/26 given the £10,000 limit.

Be careful of relying on the £10,000 limit if you are also a company shareholder. In this case, a loan or an overdrawn director's current account could result in a tax charge for your company, with this charge applying whatever the amount of loan.

OTHER EXEMPT BENEFITS**Mobile phones**

The most common benefit not already mentioned is the provision of a mobile phone for private use. You and each employee are permitted one tax-free mobile phone, but make sure that it is the company that owns the phone and takes out the contract with the telecoms company. A second phone will be taxable, as is any other device such as a tablet or laptop, even if they have telephone functionality. However, mobile phones, tablets or laptops used solely for business, or with insignificant private use, are always exempt.

Further exempt benefits

- Employees can be provided with a parking space for a car, motorcycle or bicycle.



- You can reimburse up to £8,000 of a new employee's moving costs if they have to move house to take up employment with your company.
- Employees can be provided with up to £500 of pension advice each year.
- There is also an exemption (with certain exceptions) for trivial benefits, such as employee celebrations, which do not cost more than £50 per employee.

Planning point

Each year you can spend up to £150 per person for a Christmas party or similar annual function (subject of course to social distancing requirements) without any tax implications. Or you can throw two or more events provided the total per person cost does not exceed £150.

TAX TREATMENT

All employees (with certain exceptions) are treated the same when it comes to the taxation of fringe benefits.

Employees are generally taxed on what it costs to provide the benefit. If medical insurance costs £1,250 a year per employee, then that is the figure each employee will be taxed on. If you or an employee simply has the use of an asset, such as a television, then the taxable benefit is calculated as 20% of the asset's value when first provided. Of course, the asset might be rented, and in that case the rental figure will be used if higher. However, as seen above, there are special computational rules for certain fringe benefits, such as company cars, fuel for private use and cheap loans.

The amount of taxable benefit is proportionately reduced where a benefit is only available for part of a tax year, and any amounts paid towards the benefit (by you, as a director or an employee) will reduce the taxable figure.

Unless tax free, benefits are subject to income tax at an employee's marginal rate (20%, 40% or 45% for the UK excluding Scotland, with rates ranging from 19% to 48% for Scottish taxpayers), with tax normally collected under Pay As You Earn (PAYE).

Although there are generally no employee NICs on fringe benefits, you, as the employer, will have to pay Class 1A NIC at the rate of 13.8% on all taxable benefits. This rate will increase to 15% for 2025/26.

The costs of providing employee benefits will usually be deductible in calculating your taxable profits, either as an expense or as capital allowances if you purchase something such as a company car.

Planning point

Consider using a specialist benefits provider because this will remove your administrative burden and give your employees access to a wide choice of benefits that can be selected to suit their lifestyle.

SALARY SACRIFICE

The tax and NIC advantages of many salary sacrifice arrangements have been removed. However, this change does not apply to pension contributions, childcare, low-emission cars or health-related benefits such as cycling to work.

Salary sacrifice is where an employee gives up a portion of their salary in return for a fringe benefit. The arrangement obviously works best where the benefit is tax free, such as pension contributions. There will be little or no additional cost for you in providing such benefits under a salary sacrifice arrangement, but there are tax advantages all round.

EXAMPLE

Salary sacrifice using pension contributions

Sally, one of your employees, has a gross salary of £30,000 and is personally making pension contributions of £2,000. Although income tax is only paid on £28,000 (£30,000 - £2,000), NICs for both you and Sally are based on the full £30,000. Under a salary sacrifice arrangement, Sally could give up £2,000 of her salary, with you then making the £2,000 pension contributions. The tax position is unchanged, but NICs would then be calculated on the lower salary of £28,000 – particularly beneficial here because Sally saves NICs at the rate of 8%.

Being able to take 25% of the pension fund tax-free from age 55 (increasing to 57 from 6 April 2028), with total withdrawal flexibility for the remainder of the fund, simply enhances the arrangement. The principle works equally well for you, as a director, because pension contributions can be paid rather than drawing profits as remuneration or dividends.

A company car salary sacrifice arrangement also works well for full electric and certain hybrids, and such arrangements are becoming increasingly popular.

Planning point

Ensure that contractual arrangements are watertight so that employees are not able to swap between salary entitlement and fringe benefits whenever they like. Otherwise, the salary sacrifice arrangement will not be valid.

HOW YOU SHOULD REPORT BENEFITS

Form P11D is used to report details of benefits to HMRC each tax year. Unless benefits have been payrolled, you will have to complete a form P11D for each employee that you provide with benefits, although most payroll software will include P11D completion together with electronic submission to HMRC.

With payrolling, taxable benefits are put through your payroll on a current basis in the same way as cash earnings. Any benefits which have been payrolled do not need to be included on P11Ds. With a few exceptions, all benefits, including company cars, can be payrolled. You can choose which benefits to include and any employee who does not wish for their benefits to be payrolled can be excluded.

Payrolling of most benefits will be mandatory from 6 April 2026.

If you want to payroll benefits for 2025/26 (it's too late to register for the current year), then you must register with HMRC before 6 April 2025. Registration is done using the payrolling benefits and expenses online service: <https://www.gov.uk/guidance/paying-your-employees-expenses-and-benefits-through-your-payroll>



HOW WE CAN HELP

We can advise you how different fringe benefit packages will impact on both you and your employees.

If we are not already looking after your P11D reporting, then we are more than happy to take this on or to provide guidance if you continue to do so yourself. We can also help if you decide to payroll benefits.

We can keep you up to date with the frequent changes to the fringe benefit taxation rules.



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