AF1 Income Tax 2021/22
Part 5: Benefits in Kind

As well as receiving a salary an employee may get non-cash benefits such as a company car or free private health insurance. These are known as **Benefits in Kind (BIK)** and are generally taxable as non-savings income.

The key milestones are to understand:

- the principle rules on the taxation of Benefits in Kind
- which benefits are tax free and which are taxable
- The tax position on childcare

Most BIK are taxable and this was standardised in the 1981 budget when only "higher paid employees and directors" were to have their benefits subject to tax. The definition of a higher paid employee was set at £8,500 and has never been changed. In 2021/22 the personal allowance is £12,570 so anyone whose earnings are above the personal allowance will pay tax on any benefits in kind.

The £8,500 figure is still in the rules as employers must report to HMRC any BIK paid to an employee whose total income, including the BIK is more than this even if no tax is payable.

- At the end of the tax year the employer will give the employee a **P11D certificate** which confirms the monetary amount of the benefit.

Tax free benefits

The main tax-free benefits are:

- Employer contributions to the employee's pension including any lump sum death in service benefit.
- Income Protection/PHI funded by the employer. If a claim is made the employee will pay tax on the benefit
- Annual parties where the cost per head is less than £150. Note if the cost is £151 then the whole cost becomes taxable on the employee
- Long service awards where the individual has done at least 20 years' service and is given a gift (not money) of no more than £50 per year of service
- Free or subsidised meals in a staff restaurant
- A crèche or nursery open to all employee's children
- Uniforms or protective clothing. A uniform should only be appropriate for wearing at work which is why they usually must include a company logo.
- Employee use of own car on company business. The employee can reimburse at the rate of 45p a mile for the first 10,000 miles then 25p a mile. If the employer pays more the excess is taxable. If the employer pays less the employee can reclaim the difference as a deduction from their non-savings income

- Paying up to £500 to get regulated advice on joining or taking benefits from an occupational money purchase pension. It can be made available to either all employees or those who are eligible to take benefits (over 55 or eligible for an ill health pension)

Note that this is only a partial list

Benefits that are taxable.

Most other benefits such as Private Medical Insurance are taxable. The ones that are likely to come up in a question are company cars and low cost loans.

Company Cars

A motor vehicle provided to an employee that is available for private use is always taxable.

The employee will be taxed on a notional income based on the **appropriate percentage** which is then applied to the list price. This ranges from 1% to a maximum of 37% and will be based on three main factors:

- The type of engine, electric, hybrid, petrol or diesel
- The age of the vehicle
- The vehicle's CO2 emissions.

Because of the number of variables, the exam tax tables no longer include any details of company car taxation so it's reasonable to assume that you will be given the P11D benefit of the car or you may be given the percentage which should then applied to the list price. There are few other factors that you should be aware of.

- Any capital cost made by the employee, for example to get a more expensive car than what would normally be allowed by the employer, can be deducted from the list price but this is restricted to a maximum of £5,000.
- If the car is only available for part of the year, then the value of benefit is pro-rated.
- Most diesel cars have a 4% surcharge. (maximised at 37%)
- If the employee is provided with free fuel, there is an additional charge. This is the appropriate percentage applied to a fixed figure of £24,600

Loans

- Low interest loans given by the employer are normally taxable. The benefit is the difference between the official rate (The figure is announced at the end of the tax year but was 2.5% for 20/21) and the rate being charged
- There is no tax charge if total loans to an employee are less than £5,000.

Childcare

Childcare is a major cost for parents and there are a number of options to get financial help.

Employer provided creche or nursery

An employer can provide a nursery or creche as a tax-free benefit provided it is available to all the company's employees. If though the employer makes a direct payment to the employee this would be taxable.

Tax free childcare

This is not a Benefit in Kind but a tax privileged savings vehicle.

Parents open an on-line account with HMRC and for every £8 paid in by the parent the Government will add £2. The maximum amount that can be placed in the account is £10,000 for each child that is £8,000 parental contribution and £2,000 government subsidy.

The account is then used to pay the cost of childcare. The parent will tell HMRC who is the provider and the payment will be paid directly to them. This works out as a maximum contribution of £500 every three months.

The conditions are:

- The child must be under 11 (they stop being eligible on 1 September after their 11th birthday.) Parents can claim for adopted but not foster children.
- They are living with the parent.
- A partner's employment and income is taken into account if the couple is married, in a civil partnership and live together. If the couple aren't married but live together both sets of income will be considered.
- Both parents must work (unless your partner is working and you get Incapacity Benefit, Severe Disablement Benefit Allowance, Carer's Allowance, or Employment and Support Allowance
- They must both earn at least at least the minimum living wage over the next three months based on working 16 hours a week on average.
- You lose eligibility if one parent has an adjusted net income (see part 4) over £100,000.
- This limit does not apply if you are self-employed and started the business less than 12 months ago.
- It is available for children up to age 17 if the child has disabilities.
- Both parents must be on the same plan. If one is still using the former methods, the other cannot use TFC.
- Although only a parent can open the account, anyone can pay in including grandparents.
- Money can be withdrawn from the plan for other reasons but the government subsidy will be removed.

- Quarterly submissions of eligibility will be required.
- There is no employer involvement. If the employer agrees to pay directly into the employee's plan this would be subject to tax and NI

The two previous methods closed to new applicants on October 4 2018 but existing arrangements can continue. These were:

- Employer Direct payments
- Childcare vouchers

A company can make direct payments to the employee's childcare provider. The maximum tax-free payment depends on the tax status of the employee.

Basic rate employee	£243 per month per child
Higher rate employee	£124 per month per child
Additional rate employee	£110 per month per child

The employer could also offer **Childcare Vouchers**. These enable parents to pay part of the cost of childcare.

They were normally purchased by salary sacrifice. The employee gives up, for example £1,000 of gross salary, so doesn't pay tax or NI and gets £1,000 of vouchers.

The maximum weekly voucher is £55 a week for a basic rate tax payer, £28 a week for a higher rate tax payer and £25 a week for an additional rate tax payer.

If a higher amount is given, the excess is subject to tax. Existing arrangements can continue as long as the employer is prepared to continue offering this. If parents wish to use the Tax Free Childcare scheme they must leave these discontinued schemes

30 hours free childcare

This is a government benefit that enables parents to claim 30 hours a week free childcare for a child aged 3 or 4.

- The childcare must be with an approved childcare provider
- Stops when the child starts school

The eligibility conditions are broadly the same as Tax Free Childcare and if eligible, parents can apply for both.

You should now understand:

- the principle rules on the taxation of Benefits in Kind
- which benefits are tax free and which are taxable.
- The tax position on childcare

Sources and further reading

Childcare
https://www.gov.uk/tax-free-childcare
https://www.moneysavingexpert.com/family/childcare-vouchers/

Company car tax

https://www.activacontracts.co.uk/news/company-car-tax-rates-2020-21-to-2022-23.html

Pensions advice
https://www.gov.uk/government/publications/pensions-advice/pensions-advice