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Providing benefits: what's taxable?

With particularly complex rules, getting the tax on employment benefits right for directors and employees can seem like a minefield.

Recent research by The Global Payroll Association showed that errors in this area are routine.

Its survey revealed that 25% of employees responding had been wrongly paid: and that 11% of these errors related to benefit and other payroll deductions. In this publication we refresh some of the basics, and highlight some common pitfalls, to help keep your business in the clear.

The ground rules

Many employers provide a package of non cash benefits: use of an in-house gym; meals in a staff canteen; a mobile phone; a company car. Non cash benefits like these are known as benefits in kind. Some can be provided to employees free of tax: but there are usually detailed conditions, and it's important to check that your business is using them correctly. In other cases, tax and National Insurance contributions (NICs) may be due. There are also reporting obligations. Many businesses currently notify HMRC of taxable benefits provided to directors and employees on the annual P11D: major change to this process is expected from 2026 (below).

Four top tips

One: Remember National Insurance

Generally, employees don't pay NICs on benefits. There are exceptions, such as benefits provided as 'readily convertible' assets — for example assets like stocks and shares that can easily be exchanged for cash.

But it's different for employers. Most benefits attract Class 1A employer NICs at 13.8% for 2024/25, rising to 15% from 6 April 2025.. This is worth bearing in mind when deciding on a remuneration package.

Two: Watch how benefits are provided

Should the employer provide a benefit, or should the employee pay for particular goods or services and then get a reimbursement from the employer? The way you get there can make a major difference to the tax – even if the end result seems to look the same. In broad terms, reimbursement is more likely to give rise to a charge to tax and NICs, though in some cases, the employee may be able to claim tax relief for business use.

In the past, many benefits were provided tax efficiently via salary sacrifice arrangements. Now, however, tax efficiencies are minimised in most cases. Pension contributions are the main exception.

Three: P11Ds are heading for change

From April 2026, reporting and paying Income Tax and Class 1A NICs on most benefits in kind will be required through payroll software, rather than using the traditional form P11D. Certain benefits will be mandated at a later date. Please do talk to us for more details of the change and what it will mean for your business.

Four: Another U turn for double cab pick-ups

The tax treatment of double cab pick-ups with a payload of one tonne or more is set to change yet again, with effect from April 2025. The change means they will be treated as cars, rather than goods vehicles, for benefit in kind purposes. Transitional arrangements will apply in some circumstances where employers have bought, ordered or leased such vehicles before 6 April 2025. We can advise further here.

Taxable benefits

Broadly speaking, unless there are specific provisions exempting them, or specific concessions that make them tax free, earnings and benefits will be taxable.

The taxable value of the benefit is usually what's called the 'cash equivalent'. This is generally what it costs the employer to provide the benefit, minus any part of the cost paid by the employee. But not all benefits are taxed on the cash equivalent. There are special rules for valuing certain benefits, such as employer provided cars, where these are available for private use; fuel for private motoring; and beneficial loans.

- **Employer provided cars**: The taxable benefit hinges on the list price of the car, plus particular taxable accessories, multiplied by what is called the 'appropriate percentage'. This is graduated according to the vehicle's carbon dioxide emissions, and can be up to 37%. All-electric vehicles, on the other hand, get much more favourable treatment for benefit purposes. We are happy to go into the options with you in more detail.
- **Private fuel**: A separate charge applies for private fuel provided for an employer provided car, unless the employee reimburses all private mileage, including home to work travel.
- **Vans**: A flat rate benefit charge applies each year where vans are provided with unrestricted use to employees. This is £3,960 for 2024/25. There is a nil rate for zero emission vans. Where vans are provided mainly for business use, and private use is restricted to commuting, the van benefit charge should not apply. An additional fuel charge of £757 applies for 2024/25 where employers provide fuel for unrestricted private use.
- **Cheap or interest free loans**: No benefit is taxed if the loan does not exceed £10,000. Otherwise the benefit is based on the official rate of interest less any interest actually paid.

Benefits not chargeable to tax

Employees can be provided with some significant benefits without a tax charge. Common examples include:

Annual parties and social events: No charge to tax.

Small print: They must be open to all employees; take place once a year on a recurring basis, such as a Christmas party or summer barbecue; and the total cost of all events in a tax year must be less than £150 per person. This also applies to online or virtual parties.

Workplace childcare facilities: No charge to tax where the employer provides places for employees' children in a workplace nursery.

Small print: The nursery must pass specific tests, having the appropriate registrations and approvals; and be available to all employees, for example. Facilities don't have to be at the workplace, and can be at other premises managed and financed by the employer, so long as they are not a private residence.

HMRC has been taking an active interest in this area recently, emphasising that the management and finance conditions are not a formality, and that employers should check that any use of a commercial nursery provider does meet the tests.

Parking at or near the workplace: No charge to tax for employer provided parking spaces at or near the workplace, or spaces used while on a business journey.

Small print: What HMRC means by 'business journey' is another complex area, and we can advise you on this.

Meals provided in workplace canteen: No charge for free or subsidised meals of a reasonable value provided at a workplace canteen, or vouchers covering the cost of buying them.

Small print: Meals must be open to all employees. Meals only available to particular staff, such as directors, are not exempt.

Drinks and light refreshments at work: No charge for providing access in the workplace to tea, coffee or water from a cooling dispenser, for example.

Small print: Refreshment should be available generally to all employees.

Welfare counselling services: No charge for counselling services available to all employees for welfare issues.

Small print: This includes stress; problems at work; debt; alcohol and drug dependency; bereavement; sexual abuse; ill health; and harassment and bullying. Some areas, though, are specifically excluded, such as tax or legal advice, and any medical treatment. Counselling services such as Cognitive Behavioural Therapy and interpersonal therapy are, however, permitted.

In-house sports facilities: No charge for the provision of sports or recreational facilities, such as a gym, provided directly by the employer for employees and members of their families and households; or for vouchers that can only be exchanged to use such facilities.

Small print: Does not apply to facilities available to the general public. Facilities must be available generally to all employees, not just certain groups of them.

Retirement benefit schemes: No charge to tax on contributions paid by an employer into a registered pension scheme.

Small print: Pension provision is an area requiring in-depth advice. Do talk to us for more information.

Mobile phones: Assuming the phones can't be converted into cash, no charge to tax to provide one mobile phone per employee for private use; or the line rental or cost of private calls on that phone paid by the employer.

Small print: Smart phones come within the definition of mobile phone, but the exemption doesn't apply to devices like iPads and tablets.

Homeworking allowance: Allows employers to contribute, free of tax, towards additional household expenses, such as heat and light, incurred by employees working at home.

Small print: There must be a homeworking agreement in place, and the employee must work regularly from home under the agreement. In addition, the allowance must not be more than the actual additional expense, or not more than the current £6 weekly limit (£26 a month for employees paid monthly).

Job related accommodation: Specific eligibility criteria mean this exemption applies in very limited cases, such as agricultural workers on farms and estates, pub managers and members of the clergy. Directors must either work full time, or work for a non-profit or charity organisation and hold less than 5% of the shares to qualify.

Relocation expenses: Some relocation costs, up to £8,000 are exempt, in certain situations.

Small print: Applies to new employees moving to start a job with the employer and existing employees changing their duties or place of work within the organisation. The change of residence must be to allow the employee to live reasonably close to the workplace where their old home was not; and costs must be paid before the end of the tax year after the tax year in which the employee started their job or changed their role/location.

Trivial benefits: So-called trivial benefits provide scope for periodic staff treats and morale boosters, ranging from store cards to bouquets.

Small print:

- The benefit must cost £50 or less to provide.
- It must not be cash or a cash voucher: this rules out cards that can be exchanged for cash – not vouchers for specific retailers.
- It must not be a reward for work or performance.
- The employee must not be entitled to the benefit as part of any contractual arrangement, such as a salary sacrifice arrangement.
- There is no annual limit, except for directors or other office holders of close companies (limited companies run by five or fewer shareholders). Here there is an annual limit of £300. Where benefits are provided to family members of directors/office holders who are not themselves employees, this counts towards the annual limit.

Working with you

Getting the tax right on benefits is anything but intuitive. It's essential to know what's taxable and what's not, and to make sure that your business is correct in applying any exemption. We should be pleased to advise in more detail than is possible in this publication. Do please get in touch.