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## David Beckman & Co Ltd

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### P11D Benefits – When is a Benefit Taxable and What Tax Applies?

There is a general exemption from both tax and the need to report to HMRC in respect of any expenses incurred by directors or employee which are subsequently reimbursed by the company. BUT, for the exemption to apply, you must meet the following two conditions:

- a) You must be satisfied that the expense is wholly “allowable”. Allowable means incurred “wholly, exclusively and necessarily in the performance of the duties of the employment”. This is an onerous test as numerous court cases have shown; AND
- b) Your company must have a system in place for **checking** that all payments or reimbursed expenses are wholly allowable – thus do not include any disallowable items or elements and are not excessive. If there is more than one person involved, you can check one another’s claims. Otherwise, we can assist with this checking process, but we’ll need to see your out-of-pocket expense invoices/receipts.

We set out below a number of “benefits” provided by a business to its director(s) and /or employee(s) which may or may not be taxable and thus reportable on a form P11D, depending on the specifics of each item.

#### 1. Expenses that are Partly or Wholly Personal (i.e. not Wholly Allowable)

Where you incur a cost privately AND put it through as an expense in the company’s books BUT the cost is either wholly private or is mixed business and private use, a taxable benefit can arise.

An example would be broadband or mobile phone costs where there is both private and business use.

In this case, you’ll need to let us know:

- In the context of a phone and broadband, whether the contracts are in the company’s or your personal name. ***It is vital that the contracts are put into the company name;*** AND (for all other examples of mixed business and private costs):
- the exact cost of the wholly personal or the private element of mixed business and private items.

The simplest option is for us to treat any private element of costs as drawings through your director’s current account – in effect you bear the cost yourself and we vote dividends to clear the amount. ***This avoids either payroll or P11D treatment.***



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If you don't do this and the cost is put through as a deduction against profits, without reporting the item through payroll or on a P11D, HMRC can seek penalties and interest.

## 2. Trivial Benefits

"Trivial benefits" provided to employee(s), directors, officers or family members of officers are exempt where:

- (i) The cost of providing any single benefit is less than **£50** per person, per item; and
- (ii) The benefit is not cash or a "cash-voucher" (i.e. a voucher that can be turned into cash). A voucher for example for grocery shopping is not deemed a cash-voucher; and
- (iii) The employee/officer is not contractually entitled to the benefit; and
- (iv) The benefit is not provided in recognition of services performed.

When calculating whether you've exceeded this £50 limit per item:

- The cost includes VAT
- You can average the total spent when providing a benefit to a group of employees

### **Director(s), Company Secretary and Family Members of Officers**

In addition, HMRC has imposed a total cap of £300 to the total number of items costing no more than £50 for directors, company secretary and family members of officers.

Thus, for example, for a director, company secretary or family members of officers:

- You can choose the smallest value item which takes you above £300 and only tax this one item
- Any benefit for a family member who is not an employee or office holder is treated as part of your £300 limit (as they do not have a £50 limit)

If you want to check out more information on trivial benefits, click on this link to HMRC's website <https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim21864>

Certain benefits are specifically exempted through legislation (see 10. below). Any such specifically exempted benefits shown in section 10. below should not be counted as a Trivial Benefit.

***What if you pay the invoice for personal tax work addressed to you personally, through your company, instead of paying this from private funds?***

You will need to ensure that the payment for the personal tax invoice is posted to your Director's Current Account(s) and not to Accountancy in the Profit & Loss

account. We can do this for you if you are not sure what to do – so just call us. In due course, we'll do the paperwork for a small extra dividend to you to clear this figure.

### 3. Private Medical Insurance

Where private medical insurance (PMI) is paid for through the company AND the cost is claimed in the Profit & Loss account and thus attracts corporation tax relief, this must be reported on form P11D as a taxable benefit.

However, you are generally slightly better off, paying less taxes overall, if the cost of private medical insurance is borne by you personally – i.e. put as additional drawings in your director's current account and subsequently paid for via extra dividends. This applies whether you are a basic, higher or additional taxpayer.

Do speak to us about this if you wish.

### 4. Company Car

In general, we do not recommend that the capital costs or ANY running costs of a car (such as insurance or repairs) are put through your company **UNLESS** the car is:

- NEW & 100% electric with NIL CO<sub>2</sub> emissions (where the taxable benefit in kind is **just 2%** of the list price); OR
- A Hybrid car with CO<sub>2</sub> emissions of 1-50 grams AND an electric range of at least 70 miles (where the benefit is low at 5%).

Please ask for a copy of our factsheet called "Car Benefit 2022/23" to read more or go to our website [www.dbeckman.com](http://www.dbeckman.com) – click on Resources at the top – then Download Resources – then click on Factsheets

*Please speak to us before buying a company car.*

### 5. Mileage Allowance – Where you use your own Vehicle

Where you simply reimburse any business mileage for a petrol, diesel, hybrid or fully electric car at:

- 45 pence per mile for the first 10,000 business miles; and
- 25 pence per mile for any business miles above 10,000

no tax arises on the mileage allowance paid.

***If you pay above these fixed rates, the excess is subject to tax (strictly through the payroll and is thus liable to both tax and NICs).***

You can also reimburse at the following fixed rates without any tax:

- a) Own Motorcycle - 24 pence per mile (no limit)

- b) Own Bicycle - 20 pence per mile (no limit)
- c) Passenger Payment - 5 pence per mile (no limit).

## 6. Private Fuel Provided for Any Car

In almost all cases, it is NOT worth having private fuel paid for by the company. It is far cheaper and easier to simply pay at the HMRC approved rate of 45 pence per mile (see 5. above - and if some fuel costs have accidentally been put through as Profit & Loss costs, we'll simply move these as personal drawings to your director's current account).

Please refer to Section 4 of our separate fact sheet called "Car Benefit" to read more.

## 7. You owe your Company £10,000 or more

If you draw £10,000 or more from your company during the tax year and this amount is not reduced to less than £10,000 via dividends, because of insufficient company profits (after allowing for corporation tax), to enable dividends to be voted to clear these excess drawings, a taxable benefit arises for you personally.

In other words, a taxable benefit applies if you became overdrawn by £10,000 or more at any point in the tax year, not just at the tax year end.

If you are not sure whether this could have happened, call us. We'll need to analyse the movement on your director's account and the timing of withdrawals to see if you did become overdrawn and if so, by how much.

If you were overdrawn by £10,000 or more at any time, we can eliminate the tax charge by putting through a small amount of interest as further drawings on the loan you've received. We'll assess which of two methods for calculating interest to use to minimise the cost and tax for you.

The figures we work out need to be reported on a form P11D, despite the fact that we've ensured no tax actually arises.

## 8. Subsistence Payments

Re-imbusement to a director or employees of **subsistence** expenses can be paid tax free and without any reporting requirement where:

- a) The subsistence is incurred in conjunction with business travel; AND
- b) You recover the actual amount spent (based on specific invoices); OR
- c) You recover at HMRC's set round sum rates (see (i) further below); OR
- d) You recover at higher rather than HMRC's rates but only if you've had HMRC prior "approval" to such higher rates (see (ii) below)
  - (i) You can claim using HMRC's set round sum amounts instead of basing claims on specific costs. This eases administration as you don't need to keep receipts. BUT to pay these rates you must meet all the following conditions:

- The set scale rates you pay are just:

<b>Minimum journey time away from normal place of business</b>	<b>Maximum meal allowance</b>
<b>5 hours</b>	£5
<b>10 hours</b>	£10
<b>15 hours</b>	£25

Where you pay the £5 or £10 rate AND the qualifying journey lasts beyond 8 pm, a supplemental rate of £10 can be paid to cover the additional expense necessary incurred as a result of working late. A meal is defined as a combination of food and drink.

- the travel must be in the performance of an employee's duties or to a temporary place of work, on a journey that is not substantially ordinary commuting; and
  - the employee should be absent from the normal place of work or home for a continuous period in excess of five, ten or fifteen hours; and
  - the employee should have incurred a cost on a meal **after** starting the journey
- (ii) If you pay above the scale rates shown above, please contact us.
- (iii) Note that travel costs can be denied if a contract extends beyond 24 months. This in turn also stops you being able to claim any further subsistence costs.

## **9. A Company Van**

To avoid any taxable benefit, ideally it should be made clear as a condition when the van is first made available for a director or employee that the only allowable private use of the van is home to work travel and "insignificant" other private use.

HMRC treat using the van for regular supermarket shopping or social or personal activities as more than insignificant – in which case the fixed benefit in kind for 2022/23 is:

- £3,600 for petrol/diesel vans;

BUT

- £0 for electric vans with Zero Emissions.

## **10. Other Benefits**

Some of the more common other benefits which are specifically exempted from any tax or reporting requirement are shown here:

**a) Annual Events/Parties**

Essentially, you are allowed a cost of £150 per employee. For more detailed conditions, please request our separate factsheet or see HMRC's manual here: <https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim21690>

**b) Incidental Overnight Expenses**

Essentially, overnight expenses at a hotel (such as the drinks' bar or laundry) are exempt up to:

- . £5 per night for overnight stays in the UK; or
- . £10 per night for overnight stays outside the UK.

For the detailed conditions, please call us or see here:

<https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim02710>

**c) Eye Tests**

No taxable benefit arises where the business pays for:

- (i) An eye-sight test, provided the employee is required to use display screen (VDU) equipment as part of their job; and
- (ii) Glasses or contact lenses solely for use with VDU equipment needed for their employment duties.

Both (i) and (ii) apply irrespective of whether the employer or employee arranges the test or pays for the glasses or contact lenses.

If the eye test identifies a general need for glasses as well as the need for a special prescription for VDU use, no taxable benefit arises on payment specifically for the VDU-related prescription lenses. However, payment for the non-prescription element of the glasses and /or for the glass frames would be a taxable benefit. Employers should keep itemised receipts so as be able to identify the specific cost of the eye test and the prescription lenses.

**d) Child Care Provision**

If as an employer you had set up, before 4 October 2018, either childcare vouchers or directly contracted childcare support for employees, the old beneficial rules still apply.

Tax-free employer supported childcare for employees from 4 October 2018 is basically restricted to the provision of workplace nurseries i.e. essentially only affordable by fairly large companies.

**e) Health Checks**

Payments by an employer for providing a health-screening assessment or a medical check-up for employees (just one a year) do not trigger a taxable benefit.

“Health- screening assessment” means identifying employees who might be at a particular risk of ill-health (for example asking employees to complete questionnaires or telephone interviews about their general health and lifestyle, in order to identify higher risk employees who may then be invited to a medical check-up).

“Medical check-up” means a physical examination of the employee by a health professional only for determining the employee’s state of health. Medical checks connected to the provision of medical treatment are not covered by this exemption.

**f) Life or Critical Illness Cover - if under a “Relevant Life Policy”**

The payment of premiums to provide life or critical illness cover in the event of illness/death can be exempt from all taxes if:

- provided under a “relevant life insurance policy”; and
- paid for by the employer whilst an employee of the company

The tax exemption only applies for new life cover as opposed to simply cancelling an existing life cover policy (where tax relief is not available) and replacing with a relevant life policy (where tax relief is available).

**g) Transfer or House Moving Costs**

Such moving costs arising specifically as a result of your employment, paid for by your company, are exempt up to the first £8,000.

For the detailed conditions, please call us or see here:

<https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim03104>

**h) Long Service Awards**

Essentially a gift, other than in cash, for long service of **at least 20 years**, up to a value of £50 for each year of service can be exempt from tax.

For the detailed conditions, please call us or see here: <https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim01500>

**i) Uniforms or a Uniform Allowances**

Sometimes the cost of providing some form of protective clothing or a uniform, or paying a uniform allowance can be exempt

See here for Uniforms: <https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim32475>

Or here for a Uniform Allowance: <https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim10400>

## What Happens if you have a Taxable Benefit in Kind?

1. First, we have to report the item on a form P11D (as opposed to us simply submitting a £Nil form P11D(b) declaration). This may mean an extra fee for our services depending on whether your existing fixed fee already factored in having to do this or not.
2. The amount of the benefit is treated as additional taxable income in the year. If the amount can't be covered by the tax-free personal allowance which is £12,570 for 2022/23, you will need to pay tax at either 20%, 40%, 45% or even 60% depending on the level of other income you have.
3. In addition, the company will need to pay 14.53% Class 1A employer's National Insurance Contributions (NICs) on the amount of the benefit. This needs to be paid by 19 July following the tax year in which the benefit arose. The amount of Class 1A NIC due will be shown on the company's form P11D(b) declaration. We will advise you how you pay this and the reference number to quote to HMRC.

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