



Fringe benefits

What perks are taxable and how to get the most out of those that aren't

ACTION POINTS

Invest in your employer's company

Buying shares in your company tax-free is a great benefit.

Drive an eco-friendly car

Your company car may be costing you more than you think. Use our guide to see how much better off you could be by driving a less polluting car.

Switch to an alternative-fuel car

You pay less tax on an electric or hybrid electric company car.

Take advantage of tax-free benefits

Many valuable fringe benefits, such as childcare vouchers and a company mobile phone, are tax-free, so check what your employer offers.

Many of us get benefits on top of our salary. Most aren't taxable but some of the more attractive ones, such as company cars, are. On the plus side, even if you do have to pay tax on them, you don't normally have to pay National Insurance (NI) as well. This can make a big difference – a saving of up to £110 a year of NI on a benefit worth £1,000.

Your employer must give you a statement of all your taxable benefits by 6 July after the end of the tax

year (form P11D, or P9D if you earn less than £8,500). The tax you owe will be collected automatically through your tax code (see p11).

You have to list details of your fringe benefits on your tax return if you get one.

HOW MUCH TAX YOU PAY

The amount of tax you pay is based on the cost to your employer of providing the benefit – so the cost of private health insurance premiums, or the purchase price of any asset

you're given, for example. If your employer gives you something to keep, you pay tax at the normal income tax rates (22 per cent or 40 per cent) on the difference between the price you pay and the market value of the item when you're given it. So if you pay anything towards the cost of it, the amount you pay tax on is reduced accordingly.

Some benefits are taxed differently. Special rules apply for people who earn less than £8,500 and directors; see 'Exceptions', p20.

BENEFITS YOU PAY TAX ON

You are liable for tax as follows on these common benefits unless you earn less than £8,500. The exception to this is accommodation, which is potentially taxable whatever you earn

LOANS OF ITEMS

You are taxed on 20 per cent of the market value at the time the item was first lent (not necessarily to you), or the full rental cost, plus any extra costs your employer pays.

LOANS OF MONEY

If your employer lends you more than £5,000 at an interest rate lower than the official interest rate (currently 5 per cent), you pay tax on the difference between the interest rate you're charged and the official interest rate. If your employer lends you money at more

than the official rate, there's no tax to pay. Any money you borrow and don't pay back is treated as income and taxed accordingly.

ACCOMMODATION

If you get free or cheap housing, you have to pay tax on it unless: you have to live there to do your job (as a caretaker, say); it's customary to live in the home to do your job; or you live there for your own safety.

Tax is charged on the greater of the rent paid by your employer or the property's gross rating value – if there is no rating value, your

employer must agree one with Revenue & Customs. Any rent you pay your employer reduces the taxable amount. Where the cost to the employer of providing the housing exceeds £75,000, you pay additional tax on the excess at the official interest rate, unless you are already being taxed on the full open market rent for such a property. Special rules apply for directors.

TICKETS AND VOUCHERS

Vouchers that can be exchanged for free or cheap goods are treated as cash for tax purposes. ►

DRIVING FOR WORK

How fuel and vehicles you drive for work are taxed

YOUR OWN VEHICLE

If you use your own car or van for work, your employer will probably reimburse your expenses. There's normally a set amount per mile to cover petrol and you may also get a fixed amount to cover wear and tear. For cars and vans the most you can get without paying tax in 2006-2007 is 40p per mile for the first 10,000 business miles. If you do more miles, the most you can get for the excess tax-free is 25p a mile. For motorbikes, you get 24p for each business mile; 20p for a bike.

If your employer pays you more than the maximum per mile, you have to pay tax and NI on the excess. If your employer pays you less, you can claim relief on the difference against income tax but not NI.

COMPANY CARS

Anyone who earns more than £8,500 has to pay tax on a company car. The amount you pay depends on the car's price, including any extras, and how much carbon dioxide it emits. Your tax bill is reduced if you have the car for only part of the year.

The car's price

The price of the car is its list price, not its purchase price. It includes the cost of delivery and of any accessories that the car comes with plus VAT. Also included is the cost of any accessories fitted afterwards which cost over £100 (including VAT and delivery). Such extras are added to the value of the car from the start of the tax year in which

Warning

From April 2007, the taxable value of all company vans that are used privately rises to £3,000, with a further £500 added where an employer pays for fuel for your private use. (The current taxable value is £500 or £350 for vans which are more than four years old.) But you still won't have to pay tax on a van you use only for driving at and to and from work.

they're fitted. If you pay towards the cost of buying the car or accessories, the list price is reduced by the same amount. For classic cars older than 15 years at the end of the tax year and worth more than £15,000, you use the car's current market price if this is more than the original list price. The highest list price you can be taxed on is £80,000.

SAVE BY GOING GREEN

The more carbon dioxide (CO₂) your car produces, the higher the percentage of its value you have to pay tax on. For cars registered after 1 March 2001, the CO₂ emission figure is on its vehicle registration document (V5). You can search for cars, check fuel economy and CO₂ emissions at www.vcacarfueldata.org.uk, the Vehicle Certification Agency's website.

EXAMPLE

Jack drives a 2-litre Mondeo with a list price of £20,000. Its CO₂ emissions figure is 182g/km (rounded down to 180) which means 23 per cent of the car's price is taxed.

23 per cent x £20,000 = **£4,600 taxable value**

Jack is a basic-rate tax payer so he pays **£1,012 tax** (22 per cent x £4,600)

Jill drives a 3-litre Jaguar with a list price of £30,000. Its CO₂ emissions figure is 259g/km, so 35 per cent of the car's price is taxed. The taxable value of Jill's car is therefore **£10,500** (35 per cent x £30,000).

Jill is a basic-rate tax payer so she pays **£2,310 tax** (22 per cent x £10,500)

HOW MUCH YOU'RE TAXED AT A GLANCE

Cars with no approved CO₂ emissions figure

If the engine size is (cc)...	the percentage of the car's price taxed is...	
	Car first registered before 1 Jan 1998	Car first registered on/after 1 Jan 98
0-1,400	15	15
1,401-2000	22	25
2,001+	32	35
rotary-engine	32	35

HOW THE TAX IS CALCULATED

The minimum you are taxed is 15 per cent; the highest is 35 per cent. If you drive a diesel car that doesn't meet EC standards for cleaner cars or that is registered after 1 January 2006, 3 per cent is added to the relevant percentage. For cars with an approved CO₂ emissions figure, you get a discount if you use more environmentally-friendly fuels such as electricity or gas.

For cars running on electricity and fuels such as LPG, see HMRC helpsheet IR203.

Cars with approved CO₂ emissions figure

If the CO ₂ emissions figure (g/km) is...	the percentage of the car's price that is taxed is...	
	Petrol	Diesel
2006-2007		
140	15	18
145	16	19
150	17	20
155	18	21
160	19	22
165	20	23
170	21	24
175	22	25
180	23	26
185	24	27
190	25	28
195	26	29
200	27	30
205	28	31
210	29	32
215	30	33
220	31	34
225	32	35
230	33	35
235	34	35
240+	35	35

FUEL

Any fuel you use for your own driving that your employer pays for is taxable unless you repay your employer in full. For petrol and diesel cars, the value of the fuel for tax purposes is based on the same carbon dioxide emission percentages used to calculate the taxable value of a company car (see 'Save by going green', opposite). But instead of using the car's list price, you use an amount set by Revenue & Customs – £14,400 for 2006–2007. The amount you pay tax on is reduced if you have the car for less than a year, or if you stop getting free fuel that year. If you have a company car that is powered only by electricity, you don't pay tax on its fuel.



COMPANY CAR DRIVER

Ross Clarke, from Bournemouth, uses a company car to transport display material to exhibitions and to get to and from his work. He's had the car, a Renault Laguna Sport Tourer, since September 2005, and his employer pays for the diesel he uses on business.

The car has a CO₂ emissions figure of 176g/km, so 25 per cent of its price (£24,150) is taxable. The taxable value is £6,037 (25 per cent of £24,150) but as Ross has had the car for only part of the tax year, the amount he has to pay tax on is reduced accordingly to £3,589. As a higher-rate taxpayer, Ross pays 40 per cent tax on this £3,589 – which works out to £1,435.60. Since he pays for fuel for his personal use, he has no more tax to pay.

Ross says: 'I wasn't sure how much the tax would be, but I need the car for my job and it's better than running my own car.'

BENEFITS YOU DON'T PAY TAX ON

The following fringe benefits are free of tax, provided certain conditions are met

FINANCIAL

- Pension contributions by your employer. Also up to £150 of pension advice.
- Up to £8,000 for removal and relocation expenses each time you have to move because of work.
- Small personal expenses, such as laundry or phone calls home, up to £5 a day (£10 if you are abroad) if you are away on business.
- A company mobile phone, line rental and the cost of calls, including private use.
- Up to £250 of gifts other than cash from business contacts, or business entertainment from someone other than your employer.
- Interest-free loans of money up to £5,000 (to buy a season ticket to travel to work, say).

JOB RELATED

- Long-service awards (excluding gifts of cash and most shares) for more than 20 years up to £50 for every year worked.
- Free or subsidised canteen meals, plus the first 15p of luncheon vouchers.

- £150 per person per year on company events, such as Christmas parties.
- Protective clothing or a uniform you have to wear as part of your job.
- Rewards given for staff suggestions, within certain limits.
- Training related to your work, including training materials, related travel and living expenses, and training and other services after you are made redundant.
- Legal costs to defend you as a director or an employee against work-related claims and the cost of indemnity insurance to cover the cost of such claims.
- Loans of computer equipment valued up to £500 per year, so long as they're used solely for business.

FAMILY AND HEALTH

- Childcare managed at least in part by your employer (in a nursery or playscheme).
- £50 a week of free childcare or childcare vouchers for a childminder or other registered minder.
- Death benefits.
- Welfare counselling services.

- The cost of medical treatment or insurance if you are working abroad.
- In-house sports and leisure facilities.

TRANSPORT

- 5p per passenger per mile if you take colleagues on business trips in your own car.
- Free parking at or near work paid for or provided by your company.
- Free travel to work for all staff on a company bus or financial help towards the cost of public transport.
- Loan of a bike and equipment used mainly for travel to work.
- The cost of getting to work or staying overnight near work if there is a strike on public transport.
- For disabled employees, financial help with transport to work or the provision of a car.
- Taxis home if you occasionally have to work after 9pm and public transport has stopped or it would be unreasonable to use it.
- Some of the costs of using your car for work (see 'Driving for work', opposite).

£ SAVE BY TAKING UP OFFERS OF SHARES

One of the more valuable fringe benefits is the chance to buy or receive shares in the firm you work for

Your employer may offer you the chance to buy or receive shares in your company without paying tax or National Insurance (NI) on them. For the shares to be tax-free, you must meet certain criteria, such as holding the shares, or staying with the company, for a set period – see www.hmrc.gov.uk/shareschemes for details of the criteria.

FREE SHARES

Share incentive plans allow companies to give up to £3,000 of free shares a year to each employee free of tax and NI. Employees can also buy shares worth £1,500, or 10 per cent of their gross salary (before tax and NI) if this is lower. Employers may also give an extra one or two shares for each share an employee buys.

You can also use up to £1,500 of the dividends received each year to buy more shares. Tax or NI isn't payable on these 'dividend' shares, provided you keep them for at least three years, and at least five years for other shares obtained through a

share incentive plan. You also don't pay any tax if you have to leave the company early because of injury, disability, redundancy or retirement.

SAVE AS YOU EARN SHARES

With these, you agree to put £5 to £250 a month into a savings account normally for three or five years (sometimes with the option to extend to seven years). At the end, you can buy shares in the company. You buy shares at the price agreed when the plan started (this can be up to 20 per cent lower than the current market price). You also get a tax-free bonus based on your monthly payment. The bonus rates

SAVE AS YOU EARN SHARES BONUS RATES At a glance (as at September 2005)

If you hold a share for...	you get a bonus of...
3 years	1.4 x monthly payment
5 years	4.4 x monthly payment
7 years	8.4 x monthly payment

are set by government and are fixed when you start saving.

FUTURE SHARES

Your employer can give you the option to buy up to £30,000 of shares in the future at a price fixed when the option is granted. So long as you buy them within three and ten years of the option, and Revenue & Customs approves the scheme, you won't pay tax or NI. You also won't pay tax if you leave early due to injury, disability, retirement or redundancy, provided that you bought the shares within six months of leaving. Enterprise management incentives let staff buy shares worth up to £100,000 within ten years, subject to certain criteria.

! Warning

You have to meet certain criteria for shares that you buy or receive from your employer to be tax-free – see www.hmrc.gov.uk/shareschemes

EXCEPTIONS

Different tax rules apply to low earners and directors

➤ LOW EARNERS

You don't pay tax on most benefits if you earn less than £8,500 a year. To work out whether this applies to you, you have to add to your income the value of all the benefits you receive (whether taxable or not). For example, if you earned £7,000 a year and had a perk (a car, say) with a taxable value of £2,000, you'd be over the limit with a total of £9,000. You'd also be over the limit if you earned £4,500 (including perks and expenses) for six months' work – as your income is £250 more than the £4,250 you are allowed for half a year.

However, if you have two or more jobs with different employers, you can earn £8,500 from each employer before paying tax on benefits. Benefits that can be sold or otherwise turned into money are taxable at their second-hand value, no matter how much you earn or their value.

➤ DIRECTORS

Directors always have to pay tax on taxable benefits unless they: own less than 5 per cent of shares in the company (with family and other associates); and work full time or for a charity or non-profit-making company; and earn less than £8,500.

MORE HELP

HMRC booklets and leaflets

- 480 Expenses and benefits – a tax guide
- IR10 Paying the right tax on your pay or pension
- IR115 Childcare provided by employers

HMRC helpsheets

- IR201 Vouchers, credit cards and tokens
- IR202 Living accommodation
- IR203 Car benefits and car fuel benefits
- IR207 Non-taxable payments or benefits for employees
- IR210 Assets provided for private use
- IR213 Payments in kind – assets transferred
- IR216 Securities as benefits – shares
- IR219 Securities acquired from your employment – shares

HMRC factsheet

- Using your own vehicle for work – a factsheet for employees