



# WORKING FOR AN EMPLOYER

We explain what makes up your taxable pay and describe how expenses and lump sums are taxed

**B**eing employed and having your tax deducted under PAYE isn't the end of the story as far as tax is concerned. Understanding what expenses and other payments you're entitled to will help you pay the right amount of tax.

It's important, too, that you understand and keep your P60 and any other documents your employer gives you that detail your earnings in the last tax year (see 'Glossary', right, for the forms you're most likely to come across). You must keep your own records of items not shown on your payslips, such as tips.

## TAXABLE INCOME

Besides your salary or wages, there's a range of other payments from your employer that count towards your taxable income:

- holiday pay, annual or other bonuses, commission and tips
- sick pay, including statutory sick pay; statutory maternity pay, paternity pay and adoption pay
- directors' fees
- income from working abroad (unless you count as non-resident – see 'Working abroad', opposite)
- some lump sum payments, for example on leaving a job – see 'When a job ends', opposite
- expenses payments (but some are tax-free or tax-deductible – see 'Expenses', right)
- taxable fringe benefits – for details, see p24.

## PENSION PAYMENTS

Contributions you make to an employer's approved pension scheme are deducted from your pay before tax is deducted. Such contributions do not include payments to a group personal pension or stakeholder pension – see p46. Donations you make to charity via a payroll-giving scheme are

also deducted. The figure shown on your P60 is normally the figure after deducting your pension contributions and charitable donations. This is the figure you should enter on your tax return if you get one. If you are not sure what to enter, check with your employer.

## EXPENSES

Some expense payments (that is, refunds from your employer for work-related expenses you have paid out of your own pocket) you receive are taxable. However, some are tax-free, and you can claim tax relief on others.

### Tax-free expenses

You do not need to declare:

- mileage allowance payments (up to Revenue-approved limits) if you use your own vehicle for work – see p24
- expense payments covered by a 'dispensation' – an arrangement between your employer and the Revenue to ignore certain regular types of expenses (payments to cover business travel, say). Only some expenses your employer pays may be covered; on others you may have to claim tax relief if it is due
- expense payments covered by a PAYE settlement agreement – an administrative convenience where your employer voluntarily settles tax that would otherwise be due on expenses. Settlement agreements can also cover fringe benefits
- payments of up to £2 a week for extra household costs (more if your employer can prove that the sums paid cover reasonable extra household costs) if you regularly work at home by arrangement with your employer.

## GLOSSARY

**P9D** The equivalent of the P11D for anyone who earns less than £8,500

**P11D** This shows your taxable benefits and expenses

**P45** You will get this, rather than the P60, if you leave your job during a tax year

**P46** You will get this, rather than a P45, for your first job

**P60** A summary of your pay and tax at the end of the tax year

**P60U** You will get this if you are still not working by the end of the year

In general, low earners who aren't directors do not pay tax on most expenses incurred wholly, exclusively and necessarily for work. You count as a low earner if the pro-rata rate of your yearly earnings, plus the taxable value of any benefits and expenses payments, is less than £8,500 a year. So, if you earned £4,500 for six months' work, you would be over the limit.

The taxable amount of your expenses is shown on form P11D, or P9D if you earn less than £8,500. Anyone who regularly gets tax relief on expenses may receive an extra allowance in their tax code (see p16), otherwise you should deduct the expenses on your tax return. If you do not get a tax return, write to your tax office setting out the tax relief you think you are due, and why.

### Tax-deductible expenses

You can claim tax relief on any expenses incurred wholly, exclusively and necessarily in doing your work. The Revenue's booklet 480 *Expenses and benefits* gives more information but such expenses include:

- travel expenses incurred strictly in the course of carrying out a job, including reasonable hotel and meal expenses. You can also claim essential accommodation, travel and subsistence payments if you are at a temporary workplace for up to 24 months. In most cases, you can't deduct the cost of travel to and from your place of work. See Inland Revenue booklet 490 *Employee travel*. If you use your own car for work, see p24
- the cost of replacing, cleaning and repairing protective clothing (for example, overalls and boots) and uniform necessary for your job, and which you are required to buy; cleaning this clothing if it's bought by your employer and no facilities are provided. You cannot claim for ordinary clothes you could wear outside work, even if you would not choose to do so
- maintaining and repairing factory or workshop tools and musical instruments used for your job and that you're required to provide
- replacing tools and instruments (less any amount from the sale of old ones), provided that the new ones are not inherently better. Note that no deduction is due for the initial cost of instruments and tools used for work but you may be entitled to capital allowances. For more details, see the section on capital allowances on p28 or Inland Revenue helpsheet IR206 *Capital allowances for employees and office holders*
- fixed expense deductions for clothing and tools for some types of workers – nurses, for example, can claim £70 a year. The full list is given in the Revenue's *Employment Income Manual*. You can deduct more if you spend more, but remember to keep receipts
- reference books necessary (not just useful) for your job that you're required to provide. For books whose useful life is more than two years, you may have to claim a capital allowance

## WHEN A JOB ENDS

The way lump sums, such as redundancy or compensation payments, are taxed is complex and you may need Revenue helpsheet IR204 *Lump sums and compensation payments*. Broadly, the following payments are usually tax-free unless they are in the terms of your contract:

- any lump sum for an injury or disability which means you are unable to carry on with your job
  - compensation for loss of a job done substantially outside the UK
  - gratuities on leaving the armed forces (subject to conditions)
  - some lump sums or contribution refunds from an approved occupational pension
  - money an employer pays into an approved retirement benefit scheme or uses to buy an annuity for you (again, if certain conditions are met).
- The first £30,000 of the following payments are usually tax-free:**
- payments solely for redundancy
  - compensation if an employer breaks your contract (if it does not give the required notice, say, and there is no contractual provision, or custom, or pay in lieu of notice).

instead. You cannot claim for stationery that is not used strictly for your job, or that your employer could provide for you

- expenses relating to entertaining customers, but only where you can claim them back from your employer or you pay them out of an expense allowance given specifically for entertaining and your employer is not entitled to tax relief for the amount paid to you
- fees and subscriptions to Revenue-approved professional bodies, where membership is relevant to your employment; fees to keep your name on a professional register, or to obtain or maintain a licence approved by the Inland Revenue – but you can claim this only if it is a condition of your employment
- interest on loans to buy equipment necessary for your job, such as a computer (but not a car).

You may also be able to deduct a proportion of the heating, lighting and cleaning costs as well as the cost of business telephone calls if you work at home. But it must be a necessary part of your job that some of your duties are carried out at home, not just personal choice.

### WORKING ABROAD

If you work abroad full time, your foreign earnings are likely to be free of UK income tax if you are away for a whole tax year and your visits to the UK average fewer than 91 days a tax year. There is a special deduction for seafarers. In other cases, your foreign earnings are likely to be taxable in the UK and must be declared in the supplementary employment pages. However, you can claim credit against your UK tax bill for any overseas tax you have paid. See Inland Revenue leaflet IR20 *Residents and non-residents: liability to tax in the UK*. ■

## MORE HELP

### Inland Revenue leaflets and helpsheets

- IR20 Residents and non-residents: liability to tax in the UK
- IR143 Income tax and redundancy
- IR204 Lump sums and compensation payments
- IR205 Seafarers' earnings deduction
- IR206 Capital allowances for employees and

office holders

- IR207 Non-taxable payments or benefits for employees

### Inland Revenue booklets

- IR1 Extra-statutory concessions
- 480 (2004) Expenses and benefits. A tax guide
- 490 Employee travel. A tax and NICs guide for employers