



FRINGE BENEFITS

A perk from your employer counts as part of your pay and you might have to pay tax on it. But some valuable perks are tax-free

Fringe benefits – also known as benefits in kind, or perks – are, basically, non-cash items you receive on top of your salary. Many are liable to income tax, but a key advantage for employees is that they are usually free of National Insurance – a potential saving of £110 on a benefit worth £1,000 at the Class 1 National Insurance rate.

The taxable value of benefits you've received over the past year is shown on form P11D, which your employer gives you by 6 July after the end of the tax year. Your tax office will normally collect any tax due by adjusting your PAYE code (see p16) but you will also have to enter the taxable amount on your tax return if you get one.

Employees don't usually pay

National Insurance on perks

The taxable value of many fringe benefits is the cost of providing them – so if you receive free medical insurance, say, the taxable value is the premium paid. But if your employer gives you something to keep, you pay tax on the item's market value if this is greater. Anything you pay towards the cost of a perk is deducted when working out the taxable value. Special rules apply for low earners, directors and for some benefits.

RULES FOR LOW EARNERS

People who earn less than £8,500 a year do not pay tax on most fringe benefits, including company cars. They are taxed on benefits that

can be sold or otherwise turned into money, but even then only on their second-hand value. They are also taxed on most vouchers, things paid for with an employer's credit card, most cheap or free housing, and any mileage allowance over the Revenue's statutory limit. See IR booklet 480 *Expenses and benefits – a guide*.

All this applies only if the pro-rata rate of your yearly earnings, plus the value of benefits and expense payments (whether or not they are taxable), is less than £8,500. So, 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. You'd also be over the limit if you earned £4,500 (including perks and expenses) for six months' work. If you have two or more unconnected jobs with different employers, the £8,500 limit applies to each job. More than one job with the same (or an associated) employer counts as one job for deciding if the £8,500 limit is reached.

RULES FOR DIRECTORS

Directors of a company always have to pay tax on fringe benefits unless they (together with close family members and certain other associates) own or control 5 per cent or less of shares in the company; are a full-time working director or work for a charity or non-profit-making company; and are below the £8,500 limit.

TAX-FREE BENEFITS

The following benefits are tax-free provided that they meet certain conditions. Limits may also apply. See IR booklet 480 for full details.

■ Pension advice worth £150 or less in a tax year.

- Your employer's contributions to an approved or statutory pension scheme.
- Life and sick pay insurance, routine health checks and medical screening.
- Welfare counselling services available to all employees.
- Protective clothing necessary for your job, or a recognisable uniform you are required to wear.
- The cost of medical treatment or insurance while working abroad.
- A mobile phone, line rental and calls, including private use, if provided and paid for by your employer. Money paid by your employer towards the use of your own mobile is normally taxable but you can claim tax relief on business calls.
- Small personal expenses, such as laundry or calls home, paid by your employer when you are away on business, provided they do not exceed £5 a night (£10 outside UK).
- Free or subsidised canteen meals provided for employees generally.
- The first 15p of luncheon vouchers each working day.
- In-house sports and leisure facilities available to all employees.
- Annual staff functions (such as Christmas parties) open to all staff where the total cost is £150 a head or less in a tax year.
- Non-cash gifts costing up to £250 from business contacts, and business entertainment from someone other than your employer.
- Certain removal and relocation expenses if you have to move because of work, up to £8,000 a move.
- Work-related training, including training materials and extra travel and living expenses.
- Retraining and outplacement services paid for by your ex-employer if you are made redundant.
- Childcare at a nursery or play scheme financed and managed at least in part by your employer.
- From 6 April 2005, up to £50 a week of free childcare or childcare vouchers (the care must be provided by a registered person, such as a childminder).
- Loans of computer equipment up to a maximum taxable value of £500 in a tax year.
- Staff suggestion scheme prizes.
- Genuinely personal gifts – for example, a wedding present.
- Long-service awards (excluding gifts of cash and most shares) for service of 20 years or more.
- The cost of defending certain legal claims against you as a director or an employee (but not criminal fines such as parking fines), or the cost of special insurance that your employer pays to cover you against legal claims.

Tax-free transport perks

These perks are also tax-free, though again limits and other conditions may apply:

- mileage allowances below a certain amount (see 'Using your own car for work', p24)

- passenger allowance of 5p per passenger per mile if you take colleagues on business trips in your own car
- free parking at or near work
- travel to work on a works bus or subsidised public bus
- loan of a bike and equipment used mainly for travel to work; free meals on 'cycle to work' days
- expenses for travel to work and overnight accommodation during a public transport strike
- financial help with transport to work, or a car, provided for a disabled employee
- taxis home if car-sharing arrangements have broken down, or if you occasionally work late (at least 9pm) and public transport has stopped or it would be unreasonable to expect you to use it
- taking an emergency vehicle home for use if you are an emergency service worker on call.

TAX-FREE SHARE SCHEMES

You can receive shares in your employer's company free of income tax and National Insurance (NI) contributions under the following schemes. Note, though, that in some circumstances there may be capital gains tax to pay when you sell. See the Revenue's website www.inlandrevenue.gov.uk/shareschemes.

Shares in your employer's

company may be free of tax

Share incentive plans

These plans cannot be restricted to groups of employees, but there may be a qualifying service period of up to 18 months. Companies can give up to £3,000 worth of free shares in any tax year to each employee, and employees can buy shares out of gross income (so you get full relief against tax and National Insurance). You can spend up to £1,500 a year or 10 per cent of gross pay, whichever is lower. For each share you buy, your employer has the option of giving you up to two free shares.

Companies can also allow an employee to use up to £1,500 a year of dividends from plan shares to buy further 'dividend shares'.

You pay no tax or NI provided the shares stay in the plan for at least five years (three years in the case of dividend shares), or you leave the company earlier because of injury, disability, redundancy or retirement.

SAYE share options

Under these schemes, your company gives you the right or option to buy its shares in the future at a price fixed now and up to 20 per cent below the share's current market price. You can only buy the shares with the proceeds of a save-as-you-earn (SAYE) plan, which normally runs for three



or five years. You can pay in between £5 and £250 a month. All employees with at least five years' service must be eligible.

Company share option plans

These give you an option to buy shares in your company in the future at a price fixed when the option is granted. You can have options over shares worth up to £30,000 at the time the option is granted. Your option will not be taxed or subject to NI when you buy the shares, as long as the scheme is still approved and you exercise your option between three and ten years after you received it. It may also be tax-free if you leave the company earlier because of injury, disability, redundancy or retirement and exercise your option within six months of leaving.

Enterprise management incentives

Companies that meet certain criteria may offer these. The eligible company can give you options to buy shares in your company in the future at a price fixed when the option is granted. You may hold EMI options over shares up to the value of £100,000. You will not have to pay tax and NI when you exercise an option to buy shares, provided you do so within ten years and you and the company continue to meet the qualifying criteria, and provided you did not buy the option at a discounted price.

TAXABLE BENEFITS

Here we explain how some common benefits are taxed. If you count as a low earner (that is, you earn less than £8,500 a year, including benefits), all of the benefits described here are tax-free, except for cheap or free housing which is potentially taxable whatever you earn.

Loans of items

If your employer lends you something, you are taxed on 20 per cent of its market value at the time it was first lent (or the rental cost if hired), plus any running costs your employer meets.

Loans of money

If your employer lends you money, the taxable value is the difference between the interest you pay and the official rate of interest – 5 per cent for 2004-2005 (the 2005-2006 rate was not known when we went to press). There is no tax if the balance outstanding on all loans is £5,000 or less. If the loan is above this, the interest on the whole amount is taxable. There is also no tax if your employer runs a lending business and lends money to you on the same terms as to the public. Any part of the loan your employer waives is usually taxed as income.

Low-rent and rent-free accommodation

This is taxable unless:

- you have to live in the home to do your job

THE CAR'S PRICE

A company car's price for tax purposes is usually its list price when first registered including VAT and car tax if paid (but not annual road tax); delivery charges; the list price of any accessory fitted before you get the car (including VAT, delivery and fitting). It also includes accessories, such as alloy wheels, if they cost more than £100 (including VAT and delivery) and are fitted after you get the car – the increased price applies from the beginning of the tax year in which the accessory was fitted.

Cars worth more than £15,000 and which are at least 15 years old at the end of the tax year are valued at their current market price if this is more than the list price.

The cost of converting a car to run on compressed natural gas or LPG after it was first registered is not included in the list price. Neither is anything paid to convert a car for use by a disabled person. Any contributions you make towards the car's purchase price, or its accessories (up to £5,000), reduce the taxable price of the car by an equivalent amount.

The car's list price, plus accessories, less capital contributions, cannot exceed £80,000.

CAR BENEFIT CHARGES

Cars with approved CO₂ emissions figure

CO ₂ emissions figure (g/km)		Percentage of car's price to be taxed (%) ^a	
2004-2005	2005-2006	Petrol	Diesel
145	140	15	18
150	145	16	19
155	150	17	20
160	155	18	21
165	160	19	22
170	165	20	23
175	170	21	24
180	175	22	25
185	180	23	26
190	185	24	27
195	190	25	28
200	195	26	29
205	200	27	30
210	205	28	31
215	210	29	32
220	215	30	33
225	220	31	34
230	225	32	35
235	230	33	35 ^b
240	235	34	35 ^b
245	240	35	35 ^b

^a Cars running on electricity and fuels such as LPG get a discount. See Inland Revenue helpsheet IR203 *Car benefits and car fuel benefits*

^b Maximum charge so diesel supplement is reduced

properly (as a caretaker, for instance), or

■ living in the home enables you to do your job better, and is customary in your kind of employment, or

■ there is a special threat to your security, and you live in the house as part of security measures.

If no exemption applies, the taxable value is usually the greater of the gross rateable value of the home or the rent your employer pays, less anything you pay. If there is no rateable value, your employer must agree a value with the Revenue. If the cost of the property, and any improvements to it, is more than £75,000, you have to pay an additional charge, based on the excess over £75,000 multiplied by the official interest rate. Special rules apply for directors.

USING YOUR OWN CAR FOR WORK

If you use your own car for work, employers usually reimburse your expenses. Most pay a set amount to cover your petrol for each business mile you drive. Some also pay fixed sums for wear and tear. The Inland Revenue works on a mileage basis whatever payments your employer makes.

For 2004-2005, the maximum amount you could get free of income tax was 40p a mile for

CAR BENEFIT CHARGES

Cars with no approved CO₂ emissions figure

Engine size (cc)	Percentage of car's price to be taxed (%) ^a	
	Car first registered before 1 Jan 1998	Car first registered on/after 1 Jan 1998
0-1,400	15	15 ^b
1,401-2000	22	25 ^b
2,001+	32	35 ^c
rotary-engined car	32	35 ^c

^a For cars running on electricity and fuels such as LPG, see Inland Revenue helpsheet IR203 *Car benefits and car fuel benefits*

^b Add 3 per cent if car runs solely on diesel

^c Maximum charge, so no diesel supplement

cars and vans for the first 10,000 business miles, and 25p per mile for any additional distance. Motorcycles and cycles attracted a flat rate of 24p and 20p respectively for each business mile. (The 2005-2006 rates were not known when we went to press.) For National Insurance contributions (NICs), the 40p rate applies to all car or van business miles.

If all the allowances your employer pays you mean you get a higher payment than this, you pay tax and NICs on the excess. If you're paid less than the statutory amount, you can claim relief on the difference against income tax but not NICs. You cannot claim for the cost of buying the car.

COMPANY CARS

The taxable value of your car is a percentage of its list price plus accessories – see 'The car's price', p24. The percentage depends on its carbon dioxide (CO₂) emissions, as shown in the table, p24. If you had the car for only part of the tax year, its taxable value is reduced in line with the number of days in the year it was unavailable. However, gaps of fewer than 30 days are ignored.

CO₂ emissions

The higher your car's CO₂ emissions, the greater the percentage of its price on which you are taxed. The minimum percentage is normally 15 per cent and the maximum is 35 per cent. These examples show how it works.

Bill has a petrol-driven company car with CO₂ emissions of 145g/km. The car's price for tax purposes is £10,000 and the taxable percentage is 15 per cent, so the taxable benefit from Bill's car for 2004-2005 is 15% x £10,000 = £1,500. As Bill is a higher-rate taxpayer, he pays £1,500 x 40% = £600. Ben, on the other hand, has a petrol-driven car worth £25,000 with CO₂ emissions of 220g/km. The taxable value is 30% x £25,000 = £7,500. Ben is a basic-rate taxpayer, so he pays £7,500 x 22% = £1,650.

FUEL BENEFIT

CHARGE

Jane has a 1.6-litre, petrol-driven company car. Her employer pays for fuel for her private use. To find the taxable value of the fuel, Jane needs to know her CO₂ emissions figure. For her car, this is 170g/km, which means a 20% tax charge for the year 2004-2005. She has to multiply this figure by a price set by the Revenue (£14,400 for 2004-2005). The taxable value of the free fuel is: £14,400 x 20% = £2,880. As Jane is a basic-rate taxpayer, she has to pay: £2,880 x 22% = £634 tax for 2004-2005.

There is an extra 3 per cent on the percentage for diesel cars (up to the maximum of 35 per cent), but this is waived for cars registered before 1 January 2006 that meet the EC's Euro IV standard for cleaner cars. There are also discounts from the normal percentages for cars that run on environmentally-friendly fuels such as LPG.

Your car's CO₂ emissions figure is shown on the Vehicle Registration Document, if your car was first registered in the UK from 1 March 2001. The charge for cars with approved CO₂ emissions figures is given in the table on the opposite page. See the table, top left, for cars without an approved CO₂ emissions figure.

Fuel charges

Fuel paid for by your employer for private use in a company car is taxable unless you repay your employer in full. The system for fuel benefit charges uses the same percentage as for tax on the car itself. However, you don't use your car's list price; you just multiply your percentage tax charge by a figure set by the Revenue – £14,400 for 2004-2005. 'Fuel benefit charge', left, gives an example. The taxable benefit is reduced in the same way as for the car if you do not have the car for the whole year. It is also reduced for any days after you stop getting cheap or free fuel, provided you do not get free fuel again in the tax year.

COMPANY VANS

Currently, if you have private use of a company van, you are taxed on a flat amount of £500 or £350 if the van is four or more years old at the end of the tax year. From 6 April 2005, there is no tax if the only private use permitted, and made, is commuting to and from home; otherwise, current charges apply. From 6 April 2007, the taxable value increases to £3,000, whatever the van's age. ■

MORE HELP

Inland Revenue booklets

- 480 Expenses and benefits – a tax guide

Inland Revenue leaflets

- IR97 Approved Save As You Earn share option schemes
- IR101 Approved company share option plans
- IR124 Using your own vehicle for work
- IR134 Income tax and relocation

- packages
- IR172 Income tax and company cars

- IR2002 Share incentive plans
- IR2006 Enterprise Management Incentives

Inland Revenue 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
- IR219 Securities acquired from your employment