



Changes to expenses and benefits for employees

Expenses and benefits can be a minefield, especially for the UKs many small and micro businesses.

If you are an employer you need to submit an end-of-year report to HMRC for each employee you have provided with expenses or benefits. A P11D form should be used to send the report to HMRC for employees and directors. You may also need to pay tax and National Insurance on them.

Examples of expenses and benefits include company cars, health insurance, childcare, travel and entertainment expenses. You must also keep a record of all expenses and benefits you provide to your employees. These records need to show that you have reported accurately and your end-of-year forms are correct.

HMRC may ask to see evidence of how you accounted for each expense or benefit at the end of the tax year. Therefore you should keep a record of the date and details of every expense or benefit you provide, any information needed to work out the amounts you put on your end-of-year forms and any payment your employee contributes to an expense or benefit. You should also hold on to any correspondence you have with HMRC and keep all records for 3 years from the end of the tax year they relate to.

The changes to expenses relate to 'dispensations'. These ceased to be effective from 6 April 2016 and have now been replaced by 'exemptions'. Some routine expenses and benefits do not have to be reported to HMRC, such as business travel, phone bills, business entertainment expenses and uniform/tools for work. These are now covered by an exemption.

You do not need to formally apply for an exemption if you are paying a flat rate to your employee as part of their earnings - either using a benchmark rate for allowable expenses or a bespoke rate already approved by HMRC or paying back the employee's actual costs. You must though deduct and pay tax and National Insurance on all other expenses and benefits you give to your employees, and report them to HMRC as normal.

The filing deadline for P11D forms and associated returns is 6 July. On 6 April 2016 the original earnings rate of £8,500 per annum for a P11D was abandoned so now employees who previously needed a form PD9 will now also need a P11D.

If you require any guidance or advice we would recommend you seek the help of an accountant.

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