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PAYE Settlement Arrangements

Do you provide your employees with expenses, benefits in kind or non-cash incentive awards?

A PAYE Settlement Agreement (PSA) with HM Revenue & Customs (HMRC) could help your business reduce the time taken for administration and generate goodwill among staff.

A PSA is a voluntary agreement between an employer and an inspector of taxes. Broadly, the employer agrees to meet its employees' tax liabilities relating to certain benefits and taxable expense payments.

The main advantage to this agreement is that once an item is covered by a PSA it does not need to be included on form P11D (or P9D) at the year end. Similarly, your employees do not need to include these items on their personal tax returns.

A PSA can be used for minor or irregular benefits or expense payments and items where it is impracticable to apply PAYE or identify precisely who received what, provided the employer agrees these items with HMRC.

What items can be included in a PSA?

There are many kinds of expenses and benefits in kind which you can include in a PSA, for example:

- *Minor items such as taxi fares or incidental travel you pay or reimburse;*
- The *use of assets for purposes other than business;*
- *Re-location expenses exceeding the statutory threshold for exemption;*
- *Non cash incentive awards or gifts;*
- *Taxable staff parties.*

Items excluded from a PSA

However, there are a number of benefits that HMRC will not accept in a PSA, including:

- *Ordinary cash wages, salaries and bonuses;*
- *Round-sum expense payments (e.g lump sums provided to employees to cover all expenses incurred during the year);*
- *Major benefits in kind provided on a regular basis for the exclusive use of individual employees (e.g company car and fuel for that car)*

The details

In order to use a PSA, the employer and HMRC need to agree which items are going to be included at any time, up to 6 July following the end of the tax year concerned.

As the meeting of the tax bill is in itself a benefit, a grossing-up procedure is required. Both the benefit and the tax settled are liable to an employer class 1B national insurance contribution (NIC) that is at the same rate as class 1A NIC.

The tax and class 1B NIC has to be paid by 19 October following the end of the tax year concerned.