

LBCA Chartered Accountants

Guide to Expenses & Benefits

Table of contents

<u>Expenses and benefits: the basics</u>	2
Introduction	3
What counts as an expense or benefit?	3
Expenses and benefits tax, National Insurance contributions and reporting at a glance	3
Form filling for expenses and benefits	4
Simplify your form filling - dispensations and PAYE Settlement Agreements	5
Deadlines for expenses and benefits forms and payments	6
Here's how I manage my business expenses	6
Related guides on businesslink.gov.uk	8
Related web sites you might find useful	8

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Expenses and benefits: the basics

Subjects covered in this guide

[Introduction](#)

[What counts as an expense or benefit?](#)

[Expenses and benefits tax, National Insurance contributions and reporting at a glance](#)

[Form filling for expenses and benefits](#)

[Simplify your form filling - dispensations and PAYE Settlement Agreements](#)

[Deadlines for expenses and benefits forms and payments](#)

[Here's how I manage my business expenses](#)

[Related guides on \[businesslink.gov.uk\]\(http://businesslink.gov.uk\)](#)

[Related web sites you might find useful](#)

You can find this guide by navigating to:

Home > Taxes, returns & payroll > Expenses and benefits for employers > Providing employee expenses and benefits: an overview > Expenses and benefits: the basics

Expenses and benefits: the basics

Introduction

If you provide your employees with anything other than pay, it may count as an expense or benefit. If so, you may have to report it to HM Revenue & Customs and pay tax and National Insurance contributions on it.

This guide explains the basics of the expenses and benefits system. It outlines what your obligations are, introduces the key forms for reporting expenses and benefits and provides links to sources of further information on specific topics in this area.

What counts as an expense or benefit?

The basic rule is that if you provide an employee with anything other than pay it may count as an expense or benefit, and you will need to check whether you need to report it to HM Revenue & Customs (HMRC) and pay any tax or National Insurance contributions on it to HMRC.

Common examples of expenses and benefits include company cars, health insurance, travel and entertainment expenses and childcare. For step-by-step guidance on the tax and reporting requirements for these and other types of expense and benefit, follow the A to Z link below. The rest of this guide provides an overview of the rules.

[Access the A to Z of expenses and benefits reporting on the HMRC website - Opens in a new window](#)

Expenses and benefits tax, National Insurance contributions and reporting at a glance

Your tax, National Insurance contributions (NICs) and reporting obligations differ depending on the specific expenses and benefits you provide to your employees. In general, one of the following five requirements will apply in each instance:

- At the end of the tax year you report the item on the employee's form P9D or P11D and - where a P11D is completed - pay Class 1A NICs on it.
- You treat the expense or benefit as if it were normal earnings, adding its value to your employee's other earnings when working out PAYE (Pay As You Earn) tax and Class 1 NICs using your usual payroll procedures.
- You add the item's value to your employee's earnings for Class 1 NICs purposes only (not for PAYE tax) through your payroll. Then at the end of the tax year you report it on the employee's form P9D or P11D.
- You have no tax or NICs to pay, but at the end of the tax year you report the item on

Expenses and benefits: the basics

- your employee's form P9D or P11D.
- You have no reporting requirements and no tax or NICs to pay.

To find out which of these requirements applies to a specific expense or benefit, see the A to Z of expenses and benefits reporting on the HM Revenue & Customs (HMRC) website.

The effect of how you provide an expense or benefit

The type of expense or benefit you provide isn't the only thing that affects your tax, NICs and reporting requirements. The way you provide a benefit can do so as well. For example:

- if you arrange and pay for medical insurance for an employee, you'll have to report it on form P11D and pay Class 1A NICs at the end of the tax year
- if the employee arranges the medical insurance but you pay the insurer directly for it, then Class 1 NICs will be due (through your payroll) and you'll have to report on P9D or P11D
- if the employee arranges and pays for their medical insurance but you reimburse them, then it counts as additional earnings and you'll have to deduct and pay both PAYE tax and Class 1 NICs using your usual payroll procedures

Where different scenarios like these apply to an expense or benefit, details are provided in the relevant A to Z entry - follow the link below.

[Access the A to Z of expenses and benefits reporting on the HMRC website - Opens in a new window](#)

Form filling for expenses and benefits

There are a number of different forms that you may need to use to tell HM Revenue & Customs (HMRC) about expenses and benefits you have provided to your employees. The following list provides an overview, but use the links at the end of this section for more detailed guidance.

- P11D - in general, complete this at the end of the tax year for company directors and for employees earning at a rate of £8,500 or more. File by 6 July.
- P9D - a simpler equivalent of form P11D, generally used for employees earning less than the £8,500 rate. No Class 1A National Insurance contributions (NICs) are due on items reported on form P9D. File by 6 July.
- P11D(b) - use this to declare your total Class 1A NICs liability at the end of the tax year. This total is calculated using the P11Ds you have completed. File by 6 July.
- P46 (Car) - this is for telling HMRC when provision of car benefit to an employee begins or changes. File at the end of the quarter in which the change takes place.
- P11 - expenses or benefits that go through your payroll should be recorded on form P11 in the usual way. You don't need to file this form to HMRC, but you'll need the

Expenses and benefits: the basics

figures from it when filing forms P14 and P35 at the end of the tax year.

If you're required to report an expense or benefit on form P9D or P11D, make sure you use the right form. This depends on whether the employee in question is a director of your company and on their earnings (including the value of any expenses or benefits they receive). For guidance on this important point, follow the link to 'End-of-year forms at a glance: P9D, P11D, P11D(b)' below.

[End-of-year forms at a glance: P9D, P11D, P11D\(b\)](#)

[Report start or change of car benefit on form P46 \(Car\)](#)

[Guidance on payroll calculations and form P11 from the HMRC website - Opens in a new window](#)

Simplify your form filling - dispensations and PAYE Settlement Agreements

Dispensations

A dispensation is a notice from HM Revenue & Customs (HMRC) that removes the requirement to report expenses and benefits on forms P11D or P9D. Also, if an item is covered by a dispensation it means you don't have any tax or National Insurance contributions to pay on it.

You can apply to HMRC for a dispensation - using form P11DX - to cover expenses or benefits for which your employee gets a full tax deduction. This includes many routine business expenses and benefits.

[Dispensation from expenses and benefits reporting](#)

[Go to form P11DX on the HMRC website - Opens in a new window](#)

PAYE Settlement Agreements (PSAs)

A PSA is a scheme you can use to make a one-off payment to HMRC to cover the tax and National Insurance contributions due on three categories of expense and benefit:

- minor items
- irregular items
- items it's impractical to operate PAYE (Pay As You Earn) on or to value for P9D/P11D purposes

Expenses and benefits: the basics

If an item is covered by a PSA you don't need to include it on forms P11D or P9D, or on form P14 for items that would otherwise have had to go through your payroll.

To apply, write to your HMRC office explaining that you want a PSA and describing the expenses and benefits you'd like the PSA to cover.

PAYE Settlement Agreements.

Deadlines for expenses and benefits forms and payments

The table below summarises the deadlines for key expenses and benefits tasks. It's important to keep to these deadlines. If you file or pay late, you'll be charged a penalty.

Task	Deadline
Submit forms P11D and P9D to HM Revenue & Customs (HMRC) - you can do this online	6 July following the end of the tax year
Give your employees a copy of the information from their P11D or P9D	6 July
Submit form P11D(b) to tell us the total amount of Class 1A National Insurance contributions you owe, from all your P11Ds	6 July
Payment of any Class 1A NICs owed on expenses or benefits you have provided	Must reach HMRC's bank account by 22 July (19 July if you pay by cheque)
Payment of any PAYE (Pay As You Earn) tax or Class 1 NICs owed on expenses or benefits you have provided	These should be paid during the year according to your usual monthly or quarterly payment schedule
Payment of tax and Class 1B NICs owed under a PAYE Settlement Agreement	Must reach HMRC by 22 October (19 October if you pay by cheque)

Paying HM Revenue & Customs

[Guidance on penalties for late filing and payments from HMRC - Opens in a new window.](#)

Here's how I manage my business expenses

David Connolly

Expenses and benefits: the basics

Premier Guarantee - Opens in a new window

David's top tips:

- "Invest some time in compiling a proper expenses manual."
- "Make use of the HMRC website and don't be afraid to ask if you're unsure."
- "Introduce financial inductions and workshops."

Based in Birkenhead, Premier Guarantee is one of the UK's leading structural warranty providers. The company offers a range of warranties for new homes, commercial buildings and completed housing, plus related services such as energy performance assessments. Here, financial controller David Connolly explains how the company manages the expense claims generated by its 120 employees.

What I did

Put policies and procedures in place

"When the company began working towards ISO 9001 accreditation three years ago, we undertook a thorough review of existing policies and procedures, including expenses management.

"We identified areas for improvement, such as streamlining documents, introducing preferred supplier schemes and gathering information into a single expenses manual. Having preferred suppliers makes it easier to manage certain expenses. For example our preferred hotel chain issues employees with their own expenses card to charge hotel bills to. We then receive a single monthly statement from the company.

"Employees use personal credit cards for smaller expenses and claim them back. We pay expenses monthly, within a week of them being submitted wherever possible. This ensures that employees are reimbursed in time to pay off their personal credit card bills. Where an employee is likely to incur large expenses, for example overseas travel, we ask suppliers to send an invoice direct to us where possible, so that the employee doesn't have to stump up too much of their own cash.

"Obviously good record-keeping is essential and we aim to follow best-practice in this respect. It makes keeping tabs on expenses and staying on the right side of HM Revenue & Customs (HMRC) so much easier if information is accurate, up to date and stored centrally."

Communicate effectively

"Our mantra for employees when incurring expenses is: 'Would you spend it if it was your own money?' We talk each employee through the expenses system at induction and give them a copy of the expenses manual and form, which are also available on the company intranet. In addition, we hold ad hoc informal workshops to tackle any reported difficulties.

Expenses and benefits: the basics

"One classic area for confusion is knowing what is an allowable expense and what is not, so we make a particular effort to make this clear and easy to understand.

"While my department retains overall control of expenses, the onus is initially on line managers to check expense reports. We ensure that they receive the appropriate financial induction and on-going training to enable them to do this and we communicate any regulatory changes promptly."

Monitor and analyse

"We include expenses in our monthly management accounts and analyse spending patterns as part of our regular cost analysis sessions. This means we can spot any areas where expenses are creeping up and take action to control them if necessary.

"We also set annual budgets for expenses, estimating the spend in each area using the previous year's figures but also taking company developments into account. For example, if we've taken on an overseas customer, this will impact things like travel expenses.

"Our policy and procedures work extremely well on the whole. In fact a recent HMRC inspection report commented on the thoroughness of our expenses manual, which should help us to apply for a dispensation in the future. The only time we encounter a problem is when an employee makes the occasional genuine mistake in the paperwork."

What I'd do differently

Sense-check the policy

"Looking back, the first drafts of our policy and procedures were a bit heavy on financial jargon. We've gradually re-written certain sections, but giving the documents to a 'test' group of employees to sense-check them before general circulation would have been useful. Explaining things in layman's terms makes it more likely procedures will be followed correctly."

[Related guides on businesslink.gov.uk](#)

[PAYE for employers: the basics](#) | [Report start or change of car benefit on form P46 \(Car\)](#) | [End-of-year forms at a glance: P9D, P11D, P11D\(b\)](#) | [Dispensation from expenses and benefits reporting](#) | [PAYE Settlement Agreements](#) | [Paying HM Revenue & Customs](#) |

[Related web sites you might find useful](#)

[A to Z of expenses and benefits reporting from HMRC - Opens in a new window](#)

[Download Expenses and benefits - a tax guide from HMRC \(PDF, 382K\) - Opens in a new window](#)

Expenses and benefits: the basics

window

Download guide CWG5: Class 1A NICs on benefits in kind from HMRC (PDF, 224K) - Opens in a new window

Payroll calculations and form P11 from the HMRC website - Opens in a new window

Form P11DX on the HMRC website - Opens in a new window

Penalties for late filling and payments from HMRC - Opens in a new window