



Expenses and Benefits from Employment Toolkit

2011-12 Employers' end of year forms

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Introduction

Tax agents and advisers play an important role in helping their clients to get their tax forms correct. This toolkit is aimed at helping and supporting tax agents and advisers in completing employer's end of year forms (P9D, P11D and P11D(b)) on behalf of their clients, although it may also be of use to employers or anyone who is completing these forms. It may also be of use to tax agents and advisers who do not complete their clients' end of year employer forms but wish to use it as a source of reference when advising their clients on expenses and benefits from employment matters.

This toolkit should be used for expenses and benefits commencing 6 April 2011 for employers' end of year forms 2011-12. Its use is entirely voluntary.

The content of this toolkit is based on our view of how tax law should be applied. Its application to specific cases will depend on the law at the relevant time and on the precise facts.

For further information on using this toolkit and reasonable care under our penalty system see **[Toolkits to help reduce errors - essential information](#)**.

For guidance on matters not dealt with in this toolkit you should refer to our Employment Income Manual (EIM):

hmrc.gov.uk/manuals/eimanual

Expenses and benefits from employment

The benefits code applies to most directors and employees, unless the employment is an 'excluded employment'.

An excluded employment is one where:

- an employee is in lower paid employment, earning less than £8,500 including expenses and benefits (except those covered by dispensations) or
- a director who is in lower paid employment and has no material interest in the company and is either a full-time working director or the company is non-profit making or is established for charitable purposes only

Depending on the specific expenses paid or benefits provided to directors and employees, one of the following five requirements will normally apply:

- report the expense or benefit on form P9D or P11D and, where a P11D or P11D(b) is completed, pay Class 1A National Insurance contributions (NICs)
- treat the expense or benefit as if it were normal earnings, adding its value to the employee's other earnings and calculate PAYE tax and Class 1 NICs using the usual payroll procedures
- add the item's value to the employee's earnings for Class 1 NICs purposes only (not for PAYE tax) through the payroll. Report it on the employee's form P9D or P11D at the end of the tax year
- there is no tax or NICs to pay, but at the end of the tax year the benefit or expense is reported on form P9D or P11D
- there are no reporting requirements and no tax or NICs to pay

By 6 July following the end of the tax year particulars of any expenses, payments, benefits and facilities provided to directors and employees must be submitted to HMRC on forms P9D or P11D.

The following are the type of expenses and benefit forms:

- P9D - reports expenses and benefits for employees earning at a rate of less than £8,500, including expenses and benefits (except those covered by dispensations), during the tax year, also known as 'excluded employment'
- P11D - reports expenses and benefits for directors, or employees earning at a rate of £8,500 or more, including expenses and benefits (except those covered by dispensations), during the tax year
- P11D(b) - declares the overall amount of Class 1A NICs due on relevant expenses and benefits provided

Where an employment is an excluded employment only part of the benefits code applies and only certain expenses are regarded as earnings, for example some entertaining and personal bills will be subject to employment tax.

For further information on excluded employment and the benefits code see [EIM20007](#).

For further information on the treatment of particular benefits see [Expenses and benefits A to Z](#).

Dispensations and PAYE Settlement Agreements

There are two separate schemes that reduce the administration for expenses and benefits:

Dispensations

An employer can apply for a dispensation notice from HMRC which can save time in completing end of year forms P9D and P11D. This notice removes the requirement to report agreed expenses and benefits in instances where a director or employee would be able to obtain a tax deduction. Dispensations are often given for travelling and subsistence expenses for business journeys.

For further information see [Dispensations](#).

PAYE Settlement Agreements

A PAYE Settlement Agreement (PSA) is a flexible scheme that can be used to settle any PAYE (Pay As You Earn) tax and National Insurance contributions (NICs) due to HMRC on three types of expense and benefit:

- minor items
- irregular items
- items where it is impractical to operate PAYE or to value the items for P9D or P11D purposes

An application for a PSA can be made at any time but the timing of the PSA can affect the expenses and benefits that can be covered. A PSA cannot normally be applied retrospectively and a new agreement must be made each year.

Where a PSA is in place the benefit does not appear on the forms P9D or P11D, and there is no tax or NICs due from the director or employee. Instead, the tax and NICs are payable by the employer.

A PSA can include expenses such as incidental travel costs, taxi fares and annual staff parties.

For further information see [PAYE Settlement Agreements \(PSAs\)](#) and for further guidance see [PAYE Settlement Agreements Manual \(PSA\) PSA1000](#).

Areas of risk within expenses and benefits from employment

Under general tax law most expenses payments and benefits are taxable remuneration and have to be reported to HMRC and any tax or NICs paid.

Review of benefits and expenses

If an employer provides a director or employee with anything other than pay it may have to be reported as an expense or a benefit. The type of expense or benefit and the way they are provided can affect the tax and NICs to be paid and the reporting requirement. Some expenses and benefits although not liable to tax or NIC may still need to be reported. Therefore errors can arise and it is important to consider all of the facts surrounding expenses paid or benefits provided.

For a chart showing common benefits and whether Class 1 or Class 1A NICs are due and how they should be shown on the forms P9D and P11D see [CWG5 Appendix 1](#).

Vehicles

One of the most common types of benefit relates to the use of company cars and vans by directors and employees. The term company car and van relates to any business vehicle provided by a sole trader, partnership or company to a director or employee. The benefit is calculated on the list price and the CO2 emissions. Errors can arise when vehicles available for private use are not identified and where private fuel provided is not reported on the relevant forms.

Travel and subsistence

Generally tax and NICs are not chargeable on business travelling expenses providing they are necessarily incurred on travelling in the performance of the duties of employment or are attributable to necessary attendance at a temporary workplace. Certain expense payments and benefits are exempt and a deduction or relief against the earnings from the office or employment may be available for others. Where a deduction or relief is available, the expense payment or benefit should be reported on the relevant form P9D or P11D and the claim for deduction or relief included on the director's or employee's Self Assessment return or on form P810.

For further information on employee travel see [Booklet 490](#).

Personal Bills

Some directors' or employees' personal bills may be allowable providing they are wholly, exclusively and necessarily incurred in the performance of their duties, for example where additional expenses are incurred when an employee works at home under a home working arrangement. If non-allowable personal bills are paid and these are not identified errors can arise.

Use or transfer of assets

The term 'asset' can cover a wide range of items and there are different rules if an asset is made available for a director or employee to use rather than transferring ownership to them. The rules in this area can be complex and errors commonly occur in identifying the benefit and calculating the correct benefit charge.

Record keeping

Good record keeping is essential and an employer must be able to demonstrate that the end of year expenses and benefits forms on forms P9D, P11D and P11D(b) are accurate. A record of the date and details of the expenses and benefits provided should be retained together with documentation and a record of any payments made by a director or employee contributing to the cost of expenses and benefits provided to them. Even when records are well kept, mistakes in failing to identify the benefit and arriving at the correct value may occur. For further details see **End of year forms P9D, P11D, P11D(b)**.

Using links within this document

Blue underlined text are links within this document.

Green bold text are hyperlinks to external documents on the internet (access to the internet is necessary to view these).

We have a range of services for people with disabilities, including guidance in Braille, audio and large print. Most of our forms are also available in large print. Please contact any of our helplines if you need these services.

hmrc.gov.uk/contactus/particular-needs.htm

Checklist for expenses and benefits from employment

		Yes	No	N/A
Review of benefits and expenses				
1	Have all reportable benefits and expenses payments been identified and reported?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Have all vouchers, credit/debit cards or other cards given to directors or employees been reported appropriately?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	If any directors or employees have employment related loans , has beneficial loan interest been reported appropriately?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Have any loans waived or written off during the period been taxed or reported as necessary?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Vehicles				
5	Have all company vehicles available for private use been identified?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Has the correct list price been used to calculate the car benefit charge?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Have all van benefit charges been reported?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Have any company vehicles made available to a member of the directors' or employees' family or household been reported appropriately?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	If a car or van is regarded as pooled have all the necessary conditions been met?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	If fuel is provided for company vehicles has the correct fuel benefit charge been reported?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	Where a director or employee uses their own vehicle for business journeys, have all mileage payments which exceed the approved amount been reported?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	If an Employee Car Ownership Scheme arrangement has been used, have all of the necessary conditions been met?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Travel, subsistence and entertainment				
13	Have payments for travel and subsistence been reviewed and reported appropriately?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	If travel and subsistence payments have been made for travel to a temporary workplace , have all the conditions been met?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	Has the cost of entertaining been reported appropriately?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16	Have all staff functions been reviewed to ensure that they qualify as exempt from tax?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Yes No N/A

Personal bills

17 Have all directors' or employees' [personal bills](#) been identified and treated appropriately?

18 Have all payments made for [household expenses](#) been reported?

Use or transfer of assets

19 If there is any private use of [mobile phones](#) has this been dealt with appropriately?

20 If the employer provides [living accommodation](#) has the benefit been reported appropriately?

21 Has the annual value of the [use of land and buildings](#) (other than living accommodation) placed at the directors' or employees' disposal been reported?

22 Has the annual value of the [use of any asset](#) (other than land and buildings) placed at the directors' or employees' disposal been reported?

23 If an [asset has been transferred](#) to a director or employee has the correct value been used?

24 Has the residual cost of any in-house benefits, for example [goods or services](#) provided by the employer been reported?

Explanation and mitigation of risks

Review of benefits and expenses

1. Have all reportable benefits and expenses payments been identified and reported?

Risk

Benefits or assets provided and expenses paid to or on behalf of a director or employee may give rise to employment tax charges but the correct treatment can vary considerably. For example cash payments to a director or employee are broadly liable for PAYE and Class 1 NICs whereas benefits or assets provided and expenses paid should normally be reported on a form P9D or P11D. Class 1A NICs are normally due on P11D benefits and certain expenses and declared on form P11D(b). If benefits and expenses are not identified and reported appropriately the tax and NIC paid may be incorrect.

An employer does not have to report certain specifically exempt benefits and expenses.

For further guidance see [EIM21241](#).

Where a dispensation or PAYE settlement agreement (PSA) has been agreed the payments covered do not have to be reported on the relevant forms (P9D, P11D or P11D(b)).

For further information on dispensations and PSAs see explanation below.

Mitigation

Review any benefits or assets provided and expenses paid to or on behalf of a director or employee and consider whether these include any reportable benefits or expenses. Ensure records are retained showing the benefits, assets provided and expenses paid, including those covered by dispensation or PSA, and any amounts made good by the director or employee. Ensure that the amount of any reportable benefits and expenses, net of any amounts made good by the director or employee, is included on the relevant form P9D or P11D and Class 1A NICs reported on form P11D(b) as appropriate.

Expenses that are 'wholly, exclusively and necessarily' incurred in the performance of the duties of employment are not normally liable for tax and NICs. However there is a general requirement to report all non-exempt benefits and expenses on the relevant forms. The director or employee can normally make a claim for relief under [S336 Income Tax \(Earnings and Pensions\) Act 2003](#) on their Self Assessment tax return or on form P810. To avoid reporting such routine benefits and expenses an employer can apply for a dispensation to cover these.

For further guidance on dispensations see [EIM30055](#).

For further information on the treatment of particular benefits see [Expenses and benefits A to Z](#).

Explanation

A large number of benefits are taxable but sometimes the way in which a benefit is provided will determine how and if tax and NICs are due. Where benefits in kind are taxable, tax is paid on the taxable value of the benefit which is known as the cash equivalent.

The following are the type of expenses and benefits forms:

- P9D - reports expenses and benefits for employees earning at a rate of less than £8,500, including expenses and benefits (except those covered by dispensations), during the tax year, also known as 'excluded employment'

- P11D - reports expenses and benefits for directors, or employees earning at a rate of £8,500 or more including expenses and benefits (except those covered by dispensations) during the tax year
- P11D(b) - declares the overall amount of Class 1A NICs due on relevant expenses and benefits provided

For further guidance see **Booklet 480** and **CWG2 Chapter 5** Employer Further Guide to PAYE and NICs.

A PSA allows an employer to settle the tax and NIC due on the items covered by the agreement with one single payment. For benefits or expenses to be covered by a PSA they must be of a minor or irregular nature or where it is impractical to operate PAYE. For further information see **PAYE Settlement Agreements (PSAs)** and for further guidance see **PSA1000**.

The tax rules for benefits and expenses are not always the same as those for NIC. For further guidance on NICs see **National Insurance Manual (NIM) NIM05000+** for Class 1 NICs, **NIM13000+** for Class 1A NICs and **NIM18000+** for Class 1B NICs.

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2. Have all vouchers, credit/debit cards or other cards given to directors or employees been reported appropriately?

Risk

Any non-cash vouchers, for example gift vouchers from shops, or credit, debit or other cards given to a director or employee that can be exchanged for goods or services may be chargeable as benefits. The chargeable amount is generally the cost to the person providing the voucher or card less any amount made good by the director or employee.

Business credit/debit or other cards provided to directors or employees solely for business items such as stationery do not need to be reported. However where a card is used for non-business or personal items such as clothing or meals those amounts should be reported on the relevant form P9D or P11D.

For cash vouchers, PAYE and Class1 NICs should be operated on the amount for which the voucher can be exchanged.

Employer provided childcare vouchers are exempt from tax and NICs providing certain [conditions](#) are met.

Mitigation

Ensure that the cost of providing the non-cash vouchers, credit, debit or other cards is reported on the relevant form appropriately. The chargeable amount for credit, debit or other cards is usually the relevant amounts paid by the employer less any part made good by the director or employee.

The value of the non-cash vouchers should be added to the director's or employee's gross pay and Class 1 NICs operated unless a specific exemption applies - see **NIM02416**.

Explanation

Non-cash vouchers include gift vouchers that cannot be exchanged for cash, for example book tokens or tickets.

Cash vouchers include cheques, premium bonds, postal orders and savings stamps. PAYE should be operated on the amount the cash voucher can be exchanged for. PAYE should also be operated on cash paid to a director or an employee via a credit, debit or other card.

For further guidance see **Vouchers**.

Childcare vouchers do not have to be reported providing all of the following conditions are met:

- the vouchers are for childcare that has the appropriate registrations and approvals
- they are available to all employees
- the children cared for are employees' children or children for whom employees have parental responsibility
- the vouchers cover childcare up to the end of the week containing 1 September following each child's 15th birthday (16th birthday for children with a disability)
- for those employees already in a childcare scheme before 6 April 2011, the amount does not exceed £55 per week
- for those employees joining a childcare scheme on or after 6 April 2011 the employer must undertake an estimate of the employees' relevant earnings amount:
 - if the amount exceeds the higher rate limit for the tax year, the 'exempt amount' for that tax year will be £22 per week
 - if the amount exceeds the basic rate limit but not the higher rate limit then the 'exempt amount' for that tax year will be £28 per week
 - otherwise the 'exempt amount' for that tax year will be £55 per week

For further guidance on exemption for childcare see [EIM16050+](#).

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3. If any directors or employees have employment related loans has beneficial loan interest been reported appropriately?

Risk

If a director or employee receives a cheap or interest free loan related to their employment the director or employee is generally liable to tax on the difference between the official interest rate and the interest actually paid. Beneficial loans often arise when directors' loan accounts are overdrawn. However tax is not chargeable if the total balance outstanding on all loans made to each director or employee does not exceed £5,000 **throughout** the particular tax year.

Employment related loans also include any loans from an Employee Benefit Trust set up by the employer.

Mitigation

Review each loan to identify the amount of interest to be returned on form P11D. Ensure either of the two methods, the normal averaging method or the precise method is used to calculate the benefit. For further information see [Booklet 480 Chapter 17.28](#). There is no reporting requirement for excluded employments.

Where a contemporaneous record of any loan account has not been kept consider whether the loan account should be reproduced to identify if it has been overdrawn **at any point** during the year. Where a loan account is overdrawn **at any point** during the year consider whether there is a beneficial loan and ensure the benefit is reported on form P11D.

When any loan is made to a shareholder or participator consider whether tax is also payable by the company under [S455 Corporation Tax Act 2010](#).

Explanation

Employment related loans include those made by the employer or prospective employer, a company or partnership that controls, is under the same control as or is controlled by the employer or a person having a material interest in a close company or in another company or partnership controlling that close company and the employee's employer.

A cheap loan is where the amount is less than the official rate prescribed by the Treasury Statutory Instruments.

For further guidance see [EIM26104](#).

For tax purposes, loan means more than just lending money. It includes any form of credit. It follows that any kind of advance made by reason of the employment is covered. For example, any amount shown in the employer's books or records as owed by a director or employee will count as a loan.

For further guidance on beneficial loans and how to calculate the benefit (cash equivalent) see [Booklet 480 Chapter 17](#).

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4. Have any loans waived or written off during the period been taxed or reported as necessary?

Risk

When an employment related loan, or any part of it, does not have to be repaid by the director or employee there may be an additional tax charge. It does not matter what the loan was for or whether it was a cheap or interest free loan, the amount waived or written off should normally be treated as earnings. Any amounts written off after a director or employee has ceased employment will still be treated as their earnings. Where the director or employee is also a shareholder or an associate of a shareholder, the written off loan is treated as dividend income.

Mitigation

Identify any loans, or part loans waived or written off in the period. Ensure that any loan or part loan waived or written off that is not treated as earnings is reported on form P9D or P11D and Class 1 NIC operated.

If the director or employee is a shareholder or associate of a shareholder treat the written off loan as dividend income and operate Class 1 NIC on the amount written off.

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Vehicles

5. Have all company vehicles available for private use been identified?

Risk

When a car or van is made available for private use to a director, employee or a member of their family or household by reason of their employment, a car or van benefit charge is normally incurred. Even where a director or employee makes a contribution towards the private use of the vehicle, a benefit charge will arise. If full details of vehicles and their use are not kept, an incorrect charge to tax may occur.

Private use means any use other than for the directors' or employees' business travel. For cars, private use will normally include all home to work travel or ordinary commuting.

Mitigation

Establish if there have been any vehicles provided during the year and whether they were available for private use. A form P46 (Car) should be submitted to HMRC when a company car is first made available for private use or when it is withdrawn. At the end of the year any benefit for cars available for private use should also be reported on form P11D.

For further details on fuel benefit charges see [Q10](#).

See explanation below for details of when a car benefit charge may not apply.

For vans, the van benefit charge of £3,000 should be reported on form P11D at the end of the year. If no van benefit is to be reported on form P11D because use is for ordinary commuting and business journeys only or the private use is insignificant see [Q7](#) for further details.

Class 1A NICs will also be due on the relevant car and van benefit and should be reported on form P11D(b).

There is no reporting requirement for excluded employments.

Explanation

A car benefit charge will be incurred for a provided car even if there is no private use unless such private use has been specifically prohibited in advance.

The car benefit charge will apply unless both parts of the following test are satisfied:

- the terms on which the car is made available prohibit private use
- it is not in fact used privately

The mere prohibition of private use is insufficient on its own to prevent a tax charge. It is also necessary to show that it is not used for private motoring.

There are specific exceptions to the car benefit charge. For further guidance see **Booklet 480 Chapter 11.17**.

More information on the changes to the car benefit calculation applying from 2011-12 onwards can be found at **Forthcoming changes to the car benefit rules**.

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6. Has the correct list price been used to calculate the car benefit charge?

Risk

The UK list price plus the cost of any qualifying accessories must be used to calculate the car benefit charge. The list price is not necessarily the dealer's advertised price nor the price actually paid for the car. See [example](#) below.

Mitigation

Establish the correct UK list price including the price of any qualifying accessories included before the car was made available to the director or employee. Any accessories over £100 added after the car was made available should also be included with the other relevant costs less any capital contribution made by the employee to establish the benefit charge.

See **Company car and fuel benefit calculator**.

Example

A car is purchased with a list price including standard accessories, VAT, number plates, road fund licence and delivery of £17,960. It is supplied with optional metallic paint costing £245 (the cost published by the car's manufacturer). Before being made available to the employee it is fitted with an electrically operated radio aerial costing £95 (including fitting).

All of the optional accessories are qualifying accessories. The radio aerial cost less than £100 but it was made available at the time the car was first available and so the 'de minimis' limit of £100 does not apply.

Later in the tax year two extra accessories are fitted:

- A CD player with a list price of £360 (including fitting) to which the employee contributes £100
- Roof rails with a list price of £80 to which the employee contributes £50

Calculation

Price of the car plus qualifying accessories £17,960+£245+£95	£18,300
Plus later accessory (CD player)	£360
Less capital contribution (CD player)	<u>(£100)</u>
Price on which benefit calculated	<u>£18,560</u>

The price of the roof rails is not added because they are below the 'de minimis' limit of £100.

The capital contribution towards them is therefore similarly not deducted.

There is no time apportionment and the full cost of the CD player is included.

Where there is no list price for the car a notional price should be used. See **Booklet 480 Chapter 12.5**.

Different rules apply to cars run on road fuel gas and further guidance is available at **EIM24855** and **EIM24860**.

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7. Have all van benefit charges been reported?

Risk

The standard van benefit charge is £3,000. The charge may be reduced to nil only where both of the following requirements are satisfied:

- The van must only be available to the employee for business travel and commuting. It must not in fact be used for any other private purpose except to an insignificant extent.
- The van must be available to the employee mainly for the employee's business travel.

There is also no van benefit charge for vans that do not emit CO₂ in any circumstances.

Mitigation

Where the private use of a company van is more than insignificant ensure that a van benefit charge is reported on form P11D as appropriate. Where a nil return is made, it will be necessary to be able to demonstrate that the required conditions have been complied with in practice as well as in theory. Relevant information will include the terms and conditions on which the van is made available to the employee and mileage records showing the actual use.

Explanation

Insignificant is not defined, so takes its normal meaning of too small or unimportant to be worth consideration. Private use is normally considered insignificant if it is:

- insignificant in quantity in the tax year as a whole, that is a few days at most
- insignificant in quality, for example a week's exclusive private use is clearly not insignificant
- intermittent and irregular
- very much the exception in terms of the pattern of use of that van by that employee (or their family or household) in that tax year

Examples of more than insignificant use are when an employee:

- uses the van to do the weekly supermarket shopping
- takes the van away on a week's holiday
- uses the van outside of work for social activities

For further guidance see **Booklet 480 Chapter 14.1+**.

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8. Have any company vehicles made available to a member of the directors' or employees' family or household been reported appropriately?

Risk

If a family or household member, such as a director's spouse or partner has the use of a business vehicle for their personal use and is not chargeable on the vehicle personally, for example if they are in an excluded employment, the benefit of this vehicle should normally be reported on the director's or employee's P11D.

Mitigation

Identify any vehicles made available to members of directors' or employees' family or household for personal use. Where the family or household member is provided with a vehicle by reason of their employment, report the benefit on their personal form P11D.

If a family or household member is employed but is not personally chargeable on the benefit of the vehicle, for example because they are in an excluded employment consider whether the vehicle provided is commensurate with their employment. Consider whether similar vehicles are available to employees in similar positions in the same organisation. Where the vehicle is not commensurate with their employment, report the benefit on the director's or employee's P11D.

When a family or household member is not an employee of the business or where the vehicle is provided by reason of the director's or employee's employment ensure the relevant benefit is reported on the director's or employee's form P11D.

Explanation

Where a vehicle is made available for the private use of an employee (or members of their family or household) by the employer it is deemed to be made available by reason of their employment. There is one statutory exception where the employer is an individual and the vehicle was provided in the normal course of ordinary domestic, family or personal relationships. For example, an individual who employs a son might, as a parent, provide the son with a vehicle to be used for private purposes only. Facts to support this would include that it had not been treated as a business asset and that no expense or capital allowance relating to it had been allowed as a deduction in computing the parent's taxable profits.

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9. If a car or van is regarded as pooled have all the necessary conditions been met?

Risk

A car or van may be described as 'pooled' and therefore not chargeable to tax when all of the necessary conditions have not been satisfied. For example a car kept overnight at or near a director's or employee's home will not normally qualify as a pooled car.

Mitigation

Ensure that a car or van identified as a pooled vehicle qualifies as such and that all of the necessary conditions are satisfied. Review the records to identify the journeys, the drivers and where the vehicle is kept overnight. Where the conditions have not been met ensure the benefit is reported on the relevant forms P11D.

Explanation

A car or van is pooled if during a tax year it has been included in a car or van pool and all of the following conditions are satisfied:

- it is available to and used by more than one employee
- it is used by the employees for business journeys in the course of their employment
- it is not used by one employee to the exclusion of others

- any private use is incidental in relation to the business use
- it is not normally kept at or near employees' homes overnight

For further guidance see [EIM23450](#) and [Booklet 480 Chapter 15+](#).

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10. If fuel is provided for company vehicles has the correct fuel benefit charge been reported?

Risk

When fuel is provided for a company vehicle a fuel benefit charge will normally apply. A fuel benefit charge will only be reduced to nil if the **full** amount of private fuel is required to be paid and is paid by the director or employee or the fuel provided is for business use only. For example if the director or employee does not pay the cost of all private fuel including travel between home and work a fuel benefit charge would apply.

Mitigation

Where fuel is provided for private use, ensure a fuel benefit charge is included on form P11D. If the full amount of private fuel is considered to have been paid by the director or employee, review the mileage records and any calculation of private use to ensure that the full amount of private fuel has not been claimed or has been repaid.

Class 1A NICs will also be due on the relevant fuel benefit and should be reported on form P11D(b).

There is no reporting requirement for excluded employments.

To calculate fuel benefit charges:

- Fuel benefit for cars is calculated by multiplying two figures, a fixed sum and a percentage based on the car's CO2 emissions known as the appropriate percentage. For further information on calculating fuel benefit charges see [Booklet 480 Chapter 13+](#).
- Vans incur a flat rate charge of £550. For further guidance see [EIM22915](#).

Advisory fuel rates and details of both current and past rates are available at [Company cars - advisory fuel rates for company cars](#).

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11. Where a director or employee uses their own vehicle for business journeys, have all mileage payments which exceed the approved amount been reported?

Risk

Mileage payments can only be made tax free up to the maximum approved amount. These tax exempt payments are known as approved mileage allowance payments (AMAPs). If more than the approved amount is paid, tax is chargeable on the excess. For a payment to be allowable for tax, it must be made direct to the employee. Any payments to third parties, for example car insurance paid direct to the insurance company, will not therefore be an approved mileage allowance payment.

Mitigation

Ensure any amounts in excess of the AMAPs rates are reported on form P11D. Any excess payments should be added for NICs purposes to any other earnings in the period that the expense payment was made and Class 1 NICs applied. Any payments made up to the approved mileage rate are not liable to PAYE or Class1 NICs deductions.

The treatment for NIC purposes is different as Class 1 NICs are due on payments of Relevant Motoring Expenditure (RME) above a certain level. In general only one mileage rate applies to cars and vans irrespective of the number of business miles travelled.

For further guidance see [NIM05803](#).

Explanation

The amounts of the approved mileage rates are available at [Travel - mileage and fuel allowances](#).

If an employee is paid less than the approved amount, they may be entitled to a deduction for the shortfall known as mileage allowance relief (MAR).

For further information see [Mileage expenses for business travel in employees' own vehicle](#).

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12. If an Employee Car Ownership Scheme arrangement has been used, have all of the necessary conditions been met?

Risk

Broadly, an Employee Car Ownership Scheme (ECOS) is a set of arrangements whereby employees acquire cars from a specified, often single source and within a specified financing framework. An ECOS is designed to give employees similar benefits to a company car, for example a new car on a regular basis, and/or central organization of insurance and servicing in a way that means the normal car and fuel benefit provisions do not apply.

As the normal car and fuel benefit charges do not apply to an ECOS each transaction has to be considered individually for both tax and NICs purposes to identify whether tax or NICs apply. See [examples](#) of transactions that should be considered below.

Mitigation

Review every individual transaction relating to the scheme and the documentation detailing the scheme. Where the treatment for tax and NICs is not clear further guidance should be sought.

For further guidance see [EIM31500+](#).

Explanation

Examples of transactions which should be reviewed to consider the tax and NIC treatment include:

- the price at which the vehicle is sold to the employee, see [EIM21640](#) onwards
- the amount at which the employee can resell the car to the employer or provider, see [EIM21660](#) onwards
- the provision of any benefits in kind, such as vehicle excise duty, insurance, repairs and servicing, see [EIM31535](#)

Where any payment is made in connection with the vehicle, see [EIM31520](#).

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Travel, subsistence and entertainment

13. Have payments for travel and subsistence been reviewed and reported appropriately?

Risk

Payments for travel and subsistence may include, for example private travel such as travelling to a permanent workplace or round sum subsistence payments which are all broadly taxable. Relief may be available by exemption or deduction for the cost of business travel where the expense is incurred in the actual performance of the duties of employment.

If round sum payments are made the full amount should be added to the directors' or employees' earnings and PAYE and NICs deducted. However where a dispensation is held for an agreed scale rate payment, for example subsistence payments, this will not be necessary.

Mitigation

Where a dispensation or PSA has been agreed, confirm that the payments are covered by the notice. If any expenses are not covered by the precise terms of the notice or where there is no dispensation or PSA agreed ensure that the expense is included on form P11D appropriately. Ensure any round sum payments have been added to the directors' or employees' earnings for PAYE and Class 1 NICs purposes.

Explanation

Expenses payments relating to business travel are generally reportable on form P11D. Relief may be available by deduction. For further guidance on employee travel see [Booklet 490](#).

A dispensation notice is in effect a notice that no tax will be due and avoids the completion of forms P11D for routine expenses. Further guidance regarding and how to apply for a dispensation are available at [EIM30050+](#).

Benefits or expenses of a minor or irregular nature or where it is impractical to operate PAYE may be included in a PSA. Round sum allowances are outside the scope of a PSA.

For further guidance see [PAYE Settlement Agreements \(PSAs\)](#).

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14. If travel and subsistence payments have been made for travel to a temporary workplace, have all the conditions been met?

Risk

Travel and subsistence payments made to directors or employees for travelling to a temporary workplace are broadly allowable. Whether a workplace is temporary or permanent can be complex. A director or employee can have more than one permanent workplace and expenses paid for travel to a permanent workplace are broadly taxable.

A temporary workplace is one that is not a permanent workplace. A permanent workplace is one:

- where there is regular attendance in the performance of the duties
- that is a base from which the duties are performed
- that lasts or is likely to last over 24 months and for 40 per cent or more of the working time (HMRC regard duties as performed to a significant extent at any workplace if an employee spends 40 per cent or more of their working time at that place)

A period of attendance is not regarded as of limited duration or for a temporary purpose if it lasts or is likely to last for the whole period of employment.

Mitigation

In order to ascertain whether a temporary workplace has become a permanent workplace consider the directors' and employees' contracts of employment and their terms and conditions. Also consider whether the attendance at any workplace is frequent, follows a pattern or whether the employee usually attends the workplace for all or almost all of the period of their employment.

Further advice may be required to establish the type of workplace. See **Chapter 3 Booklet 490**.

Explanation

Some employees do not have a single site as a permanent workplace but have employment duties defined by a particular geographic area. The whole of the geographic area is their permanent workplace if all of the following apply:

- they have no single place that is their permanent workplace
- they attend the area regularly
- their duties are defined by reference to that area
- if the area was to be treated as a workplace it would be permanent

For further guidance see **EIM32190**.

When someone is employed on a fixed term contract or is an agency worker the workplace is not a temporary workplace if they travel there for all, or almost all, of the period of employment. For example Employee A is taken on for a fixed term appointment of four weeks to work in Glasgow. Glasgow cannot be a temporary workplace because A's attendance there is for the whole period of employment. Therefore although an employment may be temporary the workplace is permanent.

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15. Has the cost of entertaining been reported appropriately?

Risk

If the cost of entertaining is not wholly, exclusively and necessarily incurred in the performance of the duties of employment, it is regarded as a non-business expense for employment tax purposes. The director or employee may be taxable on any non-business expenses even if those costs have been disallowed in the business accounts. Any incidental expenditure, for example taxis, room hire etc, is treated in the same way as entertainment.

A deduction from earnings for the expense may be allowed if it meets the requirements of **S336** and **S356-8 Income Tax (Earnings and Pensions) Act 2003**.

For further guidance on whether a deduction from earnings for the employee or director may be allowed see **EIM32565+**.

Reciprocal entertaining between business acquaintances, even when some business topic happens to be discussed, may in fact be for social and not business reasons. Where that is the case the cost of entertaining will be a reportable benefit.

Mitigation

Establish if any entertainment expenses have been incurred including payments made by a business credit card or reimbursed to directors or employees.

Where the entertaining expenses are considered to be non-taxable or where a director or employee believes they are entitled to a deduction for the expenses, the records should show the amounts spent on each occasion, the nature of the entertainment, who attended and the reason for the meeting.

Business related entertainment expenses should be reported on form P11D, unless there is a dispensation covering the particular item but tax and NICs will not be due.

For non-business entertainment where:

- a contract is between the employer and supplier, report the amount on form P11D and apply Class1A NICs
- a contract is between the employee and supplier but the employer pays, report the amount on the appropriate form P9D or P11D and operate Class 1 NICs
- a contract is between the employee and supplier but the employer reimburses the employee, treat as earnings and operate PAYE and Class 1 NICs

For further guidance on the end of year reporting requirements for entertainment expenses see **Expenses and benefits A to Z**.

For further guidance on entertainment expenses see **Booklet 480 Chapter 20**.

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16. Have all staff functions been reviewed to ensure that they qualify as exempt from tax?

Risk

The cost of an annual function, such as a staff party, may be exempt from tax and NICs if the cost is no more than £150 per head (including VAT and the cost of transport and/or overnight accommodation) and it is open to all employees generally or open to all employees at one location, where the employer has more than one location.

Where there is more than one function in the tax year, each of which costs no more than £150 per head, and the combined cost does not exceed £150 per head there is no reporting requirement and no tax and NICs to pay.

Where there is more than one function in the tax year, each of which costs no more than £150 per head, and the combined cost of all functions exceeds £150 then whichever combination that best utilises the £150 is exempt, the other functions are taxable. The exemption applies to the particular event and not the individuals attending the event.

Mitigation

Identify all functions, particularly where there is more than one function in the year and consider which functions qualify for exemption. The cost per head is calculated by dividing the total cost of each function by the total number of attendees (including non-employees). Ensure that the appropriate benefit is reported where applicable.

Any event that is not annual such as a party to mark the award of a new contract does not qualify for exemption.

Example

A company holds two annual dinner dances open to all employees in the tax year. The total cost of the first, including transport and accommodation provided for certain guests, was £10,000 including VAT. The total number of persons attending was 100 and the cost per head was therefore £100.

The second dinner dance cost £8,000 including VAT and 100 people attended this, the average cost was therefore £80.

The total cost per head for both functions was £180 so they cannot both qualify for exemption. Since the cost per head of each function on its own was not more than £150, either event can qualify for exemption but it is likely to be more beneficial for the first to be exempted. So the benefits arising from that function will not be charged and those arising from the second function will be charged.

For employees who attended:

- both events, they will be chargeable only on the benefit of £80 for the second event
- only the first event, there will be no chargeable benefit because that event is exempt
- only the second event, they will be chargeable on the benefit of £80

If the average cost per head of each of the functions exceeded £150 the full amount of the benefit of both functions would be chargeable. The £150 is not an allowance to be set against an amount that exceeds that figure.

If the average cost per head of both functions is less than £150 in total then neither event is chargeable.

If each event is only available to a particular division or location of employees no benefit would arise on either event.

For further guidance see [EIM21690+](#) and [Business Income Manual BIM45033](#).

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Personal bills

17. Have all directors' or employees' personal bills been identified and treated appropriately?

Risk

Liabilities incurred by a director or employee, for example personal bills such as credit card or utility bills that are paid by the employer will normally be liable for tax and NICs. The treatment depends on who the contract is with and how and to whom the employer makes the payment. This area can be complex and if the correct treatment is not established tax and NICs may be incorrect.

Mitigation

Review the expense records including credit card statements to identify any personal bills paid. Identify the correct treatment, as detailed below, and ensure the relevant employment taxes are operated or forms P11D, P9D or PAYE Settlement Agreement submitted.

Where:

- a contract is between the employer and supplier, report the amount on form P11D and apply Class1A NICs
- a contract is between the director or employee and supplier but the employer pays the supplier, report the amount on the appropriate form P9D or P11D and operate Class 1 NICs
- a contract is between the director or employee and supplier but the employer reimburses the employee, treat as earnings and operate PAYE and Class 1 NICs

Explanation

For expenses that are partly for business and partly personal and the employer is unable to determine how much of the payment is business-related, for example where there is a mixed purpose, the full amount of the payment should be subject to PAYE or reported on form P11D as appropriate. Class 1 NICs are due on the entire payment and the amount paid by the employer should be added to the earnings for NIC purposes in the period in which the payment was made.

If the expenses are business related and wholly, exclusively and necessarily incurred in the performance of the duties the payments should still be reported on a form P11D, unless there is a dispensation in place.

For further guidance on the general rules for employees' expenses see [EIM31630+](#).

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18. Have all payments made for household expenses been reported?

Risk

When a director or employee works at home, the tax treatment of any expenses incurred or reimbursed will depend on a number of factors including the nature of the payment, the director's or employee's duties and the arrangements made for them to work at home.

The additional household costs must be reasonably incurred in carrying out the duties and exclude household costs that normally have to be paid, for example mortgage or council tax payments. Relief for expenses that relate to both business and private use, for example telephone line rental or internet access is not allowable.

Mitigation

Review any household expenses paid or reimbursed to a director or employee. Ensure any costs in excess of the identifiable additional household expenses incurred or the cost of expenses that relate to both business and private use are taxed or reported appropriately. Where:

- a contract is between the employer and supplier, report the amount on form P11D and apply Class1A NICs
- a contract is between the director or employee and supplier but the employer pays the supplier, report the amount on the appropriate form P9D or P11D and operate Class 1 NICs
- a contract is between the director or employee and supplier but the employer reimburses the employee treat as earnings and operate PAYE and Class 1 NICs

Explanation

A director or employee who has no alternative but to work at or from home may be able to get tax relief under [S336 Income Tax \(Earnings and Pensions\) Act 2003](#) on some household expenses. In order to qualify for relief certain criteria must be met. These are detailed at [EIM32760](#).

A director or employee who formally works at home by arrangement with his employer may be reimbursed for additional household expenses incurred in carrying out his duties under S316A ITEPA 2003. The conditions for such tax-free reimbursements are included in [EIM01472](#) and [S316 Income Tax \(Earnings and Pensions\) Act 2003](#).

A flat rate deduction of £3 per week for each week a director or employee is required to work from home is normally allowable without keeping supporting records.

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Use or transfer of assets

19. If there is any private use of mobile phones has this been dealt with appropriately?

Risk

If an employer provides more than one mobile phone or SIM card to a director or employee for private use, a benefit may be chargeable. The provision of one mobile phone for both business and private use is normally exempt from tax or NICs.

Mitigation

Where more than one business mobile phone or SIM card is provided for private use make sure that the benefit is reported on a form P11D. Where more than one mobile phone or SIM card is provided for business use and any private use is not significant, no benefit will arise.

Explanation

An employer can provide one mobile phone per director or employee for business and private use without having to report it as a benefit - see **S319 Income Tax (Earnings and Pensions) Act 2003**. Where a director or employee is provided with a second mobile phone it may also be exempt from tax provided that business use is predominant and any private use is insignificant - see **S316 Income Tax (Earnings and Pensions) Act 2003**. Where private use of a second phone is significant, a benefit must be reported. For further guidance see **EIM21613**.

The Expenses and Benefits from Employment Toolkit previously reflected HMRC's then view that smart phones were not mobile phones for the purposes of the mobile phone exemption. It is now accepted that this view was incorrect and smart phones are now included within the definition of mobile phones. Some Personal Digital Assistants may remain outside of the exemption. For further guidance see **EIM21779**.

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20. If the employer provides living accommodation has the benefit been reported appropriately?

Risk

Where a director, employee or members of their family or household is provided with living accommodation the director or employee is liable to tax on the value of the accommodation.

There are several factors that have to be taken into account when calculating the cash equivalent of the benefit, for example how the accommodation is financed, how long the employer has held an interest in the property, the value of the property, when it was first occupied etc.

For specific exemptions when there is no charge to tax for accommodation provided by an employer see [explanation](#) below.

Mitigation

Unless living accommodation is exempt from tax, calculate the relevant cash equivalent and include on the appropriate form:

- for accommodation with a cost of £75,000 or less see **Booklet 480 Chapter 21.9**
- for accommodation with a cost more than £75,000 see **Booklet 480 Chapter 21.13**
- for accommodation with a cost of more than £75,000 where the employer owned or had an interest in the property throughout the six years prior to the employee's occupancy see **Booklet 480 Chapter 21.6**

Explanation

It is only in very specific cases that there is no charge to tax, for example a lock keeper or a teacher of a boarding school, where it can be demonstrated that the occupation of that particular property as opposed to any other property is essential to the performance of their duties. It may also be customary for a particular type of employee to be provided with accommodation. Where it can be shown that provision of accommodation is customary and it is necessary for the better performance of that employee's duties, the accommodation will also not attract a charge to tax.

Where an employer provides living accommodation to a director or employee who is required to work at a temporary workplace see **EIM11302**.

For more information on providing living accommodation see further examples available at [EIM11351](#) and [Booklet 480 Chapter 21](#).

Class 1A NICs will also be due on any benefit. For further guidance see [CWG5](#).

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21. Has the annual value of the use of land and buildings (other than living accommodation) placed at the directors' or employees' disposal been reported?

Risk

Where land or buildings, other than living accommodation, owned by the employer are placed at the disposal of a director or employee a tax charge will arise.

The annual value of the use of the asset plus any additional running costs met by the employer or person making the asset available will count as remuneration of the director or employee. The annual value is the gross rateable value for rated buildings or the annual rental value where there is no rateable value or where the asset is land.

Mitigation

Identify any land or buildings placed at the director's or employee's disposal and ensure the relevant annual value and any other related costs are included on form P11D. Where living accommodation has been provided please see [Q20](#).

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22. Has the annual value of the use of any assets (other than land and buildings) placed at the directors' or employees' disposal been reported?

Risk

Where an asset belonging to the employer is placed at the disposal of a director or employee for example a yacht, aircraft or motor cycle a tax charge will arise.

The annual value of the use of the asset plus any additional costs paid by the employer such as insurance and fuel will count as earnings of the director or employee. The annual value is generally 20 per cent of the market value when it was first used to provide a benefit.

Mitigation

Identify any assets placed at the disposal of the director or employee and ensure the appropriate annual value plus additional expenses are reported on the form P11D. These rules do not apply to cars, vans ([Q5+](#)) or living accommodation ([Q20](#)).

Explanation

Where a benefit is provided partly for the use of a director or employee and partly for business use the cost of the benefit may be apportioned between the different uses. For further guidance see [EIM21200](#) and an example at [EIM21638](#).

For further guidance on assets placed at the disposal of a director or employee see [Booklet 480 Chapter 6.7](#).

There are some exceptions where assets placed at the disposal of directors or employees are not taxable such as a computer used to work from home. For further guidance see [EIM21600+](#) and information see [Booklet 480 Chapter 5](#).

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23. If an asset has been transferred to a director or employee has the correct value been used?

Risk

When an asset is transferred to a director or employee there will normally be a chargeable benefit. The value to be used will depend on certain factors. When the asset is a new asset the value to be used is the higher of the asset's market value when transferred or the asset's initial cost.

For used assets not previously made available as a benefit the market value at the date of transfer should be used.

The value of a used asset previously made available as a benefit is the higher of:

- the asset's market value when transferred
- or its market value when it was first made available as a benefit, less any amount charged to tax and national insurance while provided as a benefit

There are exceptions relating to cars, vans, bicycles, living accommodation and computers.

Mitigation

Identify any assets transferred and whether they are new or used assets. Establish if they have been made available previously as a benefit. Ensure that the appropriate value is included in the P11D.

Explanation

An example of how to arrive at a chargeable benefit for an asset such as a yacht previously made available as a benefit is at [EIM21651](#).

For further guidance see [EIM21640+](#).

The value for specific assets listed as 'exceptions' is calculated as the lesser of the original cost or the market value at the date of transfer less any sum paid. For further guidance see [EIM21655](#).

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24. Has the residual cost of any in-house benefits, for example goods or services provided by the employer been reported?

Risk

When an employer who sells goods or services in the course of their regular business gives those same goods or services to directors or employees free or at a reduced cost a tax charge will arise on the cash equivalent, restricted to the residual or marginal cost. For example a fee paying school may give spare places to employees' children, free of charge and a benefit will only arise on any additional cost incurred by the employer.

Mitigation

Identify any in-house benefits provided. Consider the costs involved and include any additional cost to the employer on the directors' or employees' forms P11D.

Example

Company C builds conservatories.

The company builds a conservatory on Director B's house.

The company is providing goods and services which it also provides to its customers.

The conservatory is therefore an in-house benefit.

The additional costs of the conservatory include:

- cost of planning permission
- cost of building materials
- cost of the additional labour

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