



 **dns  
accountants**

# **Tax saving tips**

The employee



## **Introduction**

HMRC assesses taxes annually and many allowances are also allocated annually. Hence there are many opportunities to optimise your taxes just by planning and timing your actions.

Additionally, HMRC wishes to promote some types of action, so it may be to your advantage to take these opportunities, while available.

Here we have outlined some of the key opportunities available to you.

If you want to know more about any of these or book a meeting with an independent financial advisor, then do contact DNS Accountants.

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Whether an employee of your own company, an umbrella company or any other business then there are certain benefits to which you are entitled. There are also a lot of benefits that may save you and/or your employer tax if made available.

So firstly, do check out what your employer already offers to see how you may be able to take advantage and save tax; then see if there are other benefits that you may encourage them to offer. If you are that employer, then you may consider offering them to yourself and your employees.

## Annual function allowance

A social function (e.g. Christmas Party) held for staff (directors & employees), is a tax allowable business expense; and will not be taxable on those staff members provided these conditions are met:

- It happens every year i.e. is annual
- It is an event i.e. booked not ad hoc
- All staff (at that site) are invited (can include subcontractors)
- Annual cost per head of all such functions does not exceed £150, including VAT.

Others may be invited e.g. family members, but such costs will be termed as entertaining by HMRC, which is not tax deductible for the business.

## Childcare vouchers

The employer managed Childcare Voucher scheme has been closed to new entrants from October 2018 and has been replaced by the HMRC managed Tax-Free Childcare Scheme.

However, employers can continue to support childcare, with tax free vouchers (or direct payments to childcare providers) for all employees who were enrolled on their scheme prior to October 2018, and still have qualifying children under the age of 16.

## Computers and computer accessories

The provision and maintenance of computer equipment, hardware and software, by an employer is a tax-free benefit, provided it has some business use.

## Cycle to work

HMRC is encouraging employers to provide bikes for employees or assist them to purchase bicycles under the cycle to work scheme.

Accordingly, the purchase of a bicycle (including related safety equipment etc.) by the company and its provision to an employee/director is tax deductible on the company and tax free on the employee if the following conditions are met.

- made available to all employees
- used mainly (over 50% of the time) for qualifying journeys

Qualifying journeys are those that are all or part of a journey to, from or between workplaces. Note these are more than just business journeys as defined under the travel rules.

Under the cycle to work scheme the employee further pays his employer a fee in compensation for this benefit – treated as bike hire charge for VAT etc. and deducted as salary sacrifice for PAYE.

## Enterprise Management Incentive (EMI)

If your business has assets of less than £30m then you may decide to offer Enterprise Management Incentives (EMIs) to your employees. This is a government backed share option scheme for employees of a UK-based business that is incredibly tax efficient for both employer and employee.

This is a great way to incentivize and retain key staff by sharing the success of the business.

Key employees are granted the right to buy shares at a fixed price at some time in the future.

If all conditions are met then

- The employer has given a bonus that costs them nothing up front, and only needs to operate PAYE (at exercise), if the fixed price was discounted from the market value at grant.
- The employee gets cut price shares (paying only the fixed price when they have probably risen in value) – if the shares have not increased in value then they may take the option not to exercise the right to buy.

There are lots of conditions and registration of the scheme with HMRC so do consult DNS Accountants or an expert before setting up an EMI scheme.

## Eye tests

If employees regularly use a computer for the performance of their work, then the cost of an eye test is a tax-free benefit if paid for by the employer.

The cost of glasses however is a taxable benefit unless specified via a prescription that it is only for business use.

## Mobile

The company can provide an employee with one mobile phone, that may be used for private use, without HMRC considering it a taxable benefit. The contract for the phone must be in the company's name.

A mobile phone is a device that is designed or adapted for the primary purpose of transmitting and receiving spoken messages. It includes SIM only supply and SMART phones but excludes satnav, PDA, Laptops and devices using VOIP.

## Overnight allowance

There are often personal (non-business) incidental expenses incurred by an employee while travelling overnight on business that would usually be classed as taxable benefits if paid or reimbursed by the company e.g. – Newspapers, laundry or calling home. However, there is an exemption for payments of less than £5 per night for travel within the UK and less than £10 night for travel outside the UK. If this allowance is exceeded, then the full cost is taxable. Hence, it can be more efficient for employees to claim the full allowance rather than charge or claim actual costs.

## Pension contributions

It is compulsory for certain employees to be enrolled into a company pension scheme and for the company to make contributions unless the employee opts out.

The payment of pension contributions direct by the employer, as part of autoenrollment obligations or salary sacrifice is very tax efficient as neither employer nor employee pay tax or national insurance on these contributions.

Auto-enrollment schemes are not always the best option, especially as they involve a lot of admin by the employer, but the tax benefits apply to most schemes so do negotiate with your employer and consult an Independent Financial advisor about your contributions.

## Relocation expenses

Relocation costs of up to £8,000 can be tax free

'qualifying' such costs can include the costs of buying or selling a home, moving costs and buying certain things for a new home.

However, they are only qualifying costs for an employee who is moving area to be nearer to a new job or an existing employee who is changing their place of work; also, the employee's new home must be reasonably close to the workplace compared to their old home.

For more information, kindly get in touch with the DNS team.

## Staff meals

An employee travelling on business can claim subsistence costs e.g. a meal or coffee stop, that are tax free on the individual and tax allowable for the company.

For travel in the UK the tax man has set benchmark subsistence rates that may be used to make the day's subsistence claim, instead of keeping the receipts and claiming actual costs.

Minimum Trip Time	Benchmark Allowance
5 hours	£5
10 hours	£10
15 hours	£15

A further allowance may be claimed of £10 where the qualifying trip lasts beyond 8pm.

Qualifying conditions for benchmark daily subsistence claims

- The travel must be in the performance of duties or to a temporary workplace, on a journey that is not substantially ordinary commuting
- The employee should be absent from the normal workplace for a continuous period in excess of 5, 10 or 15 hours
- The employee should have incurred a cost on a meal (food and drink) after starting the journey

For travel overseas HMRC has set benchmark rates for Accommodation, Subsistence and some incidentals. These rates are split out into various elements and may be used in full, per hours in the country, or piecemeal with receipts. For a full list, city by city, see:

<https://www.gov.uk/government/publications/scale-rate-expenses-payments-employee-travelling-outside-the-uk>

## Termination payments

If losing your job or dismissing someone then there are strict rules on what is taxable and what it not. Do make sure you are clear on what payments are being made and whether they are subject to Income tax and/or National insurance.

Is this a true redundancy situation? If so then the first £30,000 of redundancy pay is tax free, the rest of the redundancy package is taxable.

Normal pay, bonuses and other contractual payments are also taxable.

But what else has been paid and under what circumstances?

Is it taxable? Has tax been deducted? E.g.

- Compensation – should be tax free
- Additional pension contributions – depends on whether employees or employers' contributions
- Proceeds from sale of share scheme shares – a mixed bag!

## Trivial benefits

All benefits are subject to tax and NIC, unless covered by a specific exemption or rule. However, to avoid having to report and tax minor benefits there is also a Trivial Benefits allowance, for any non-cash benefit without its own specific allowance.

However there are still conditions to be met for it to be exempt under this allowance

- Each benefit must have cost the company less than £50
- The benefit must not be able to be exchanged for cash
- There is a limit of £300 pa for a director, and each member of his household
- The benefit must not be a reward, e.g. for work done etc
- There must have been no expectation of receiving the benefit

Joint benefits may be split between staff

Staff can include ex-employees

Examples:-

- Flu jab
- Turkey at Christmas
- Staff celebration lunch on winning a new contract
- Flowers for a birth

## Use of home as office

If an employee is contracted to work from home, then he can claim a percentage of the additional costs of using his home for business e.g. electricity bill, broadband charges, telephone bill, metered costs of gas and water. The expenses of a fixed nature such as rent, or mortgage cannot be claimed as they would have been paid whether or not the employee worked at home.

However, if you are using your home-office only for paperwork and accounting, you may prefer to claim the £4 per week allowance rather than doing the detailed calculations.



## Vehicles

The company may provide vehicles to its employees for business use, but there are different benefit in kind tax rules dependent on the type of vehicle.

There is no benefit in kind if the vehicle is a Lorry, or other commercial vehicle – but not most people's choice for a vehicle to use personally.

If classed as a van and actually used privately, then there is a fixed benefit in kind rate for the Van and another for the fuel. Home to work journeys do not count as private in this context, so this can be a nice tax efficient benefit if no private miles or a lot of private miles are done in this type of vehicle.

If the vehicle made available is a car then there are complex rules for arriving at the benefit in kind for the car, and again for the fuel. These calculations are based on the value of the car when it came out of the factory, its emissions and its fuel type, but not actual private use.

HMRC are encouraging the purchase of electric cars so a car with emissions less than 50 and a range of over 130 miles can have a taxable benefit as low as 2% of list price from April 2020.

Some cars made available by the company to employees can be exempt from taxable benefits if they qualify as 'pool cars'. Pool cars are shared by employees, for business use only, and normally kept on the business premises.



## Conclusion

This guide is only a quick insight into what may be available at the time of writing. Each circumstance is unique and HMRC is always changing the rules and guidance for implementation.

Please speak to DNS Accountants about what is currently available to you before taking any actions.

There is no limit to tax saving and planning, and there may be new opportunities available to you. We are passionate for our clients to pay the least amount of tax legally.

Ask to see our other guides in this series

- Tax Saving Tips – The Business
- Tax Saving Tips – The Individual



## Award winning accountants



## Get in touch

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