

## Form P11D reporting

### What is P11D reporting?

Under UK legislation, income tax is chargeable on employment income. The definition of employment income includes expenses payments to, and benefits provided for, directors and employees (and sometimes other family members).

Just as an employer reports the cash elements of employment income through payroll for their employees, they must also report **expense payments and benefits** to employees through completion of forms P11D, one for each employee. HM Revenue & Customs can then assess an individual to tax on their expenses and benefits in kind as well as cash elements of their employment.

The total value of the benefits and expenses are also reported on an employer summary form (P11D (b)) and, if UK social security ("Class 1A national insurance") is due on any of the items reported, this is calculated via form P11D (b).

### Cash v benefits

The distinction between cash and benefits reporting is illustrated below:

If an employee is provided with a car allowance of £1,000 per month in cash, this is reportable through payroll; however, if the employer provides the employee with a company car that is available for private use, this will be reported on the employee's form P11D as a benefit in kind with the value of the benefit calculated according to special rules.

### Expenses

Expense payments made to an employee by reason of employment must also be reported on P11D forms. Common expense payments include: entertaining expenses, payments made by the employee on his personal credit card as reimbursed by the company, travel and subsistence costs. Where these expenses represent genuine business expenses or are "reasonable", in accordance with the benefits legislation, the individual employee can claim them as business expenses and no tax liability arises. However, the expenses must be reported by the employer initially (subject to the rules on "dispensations" - see below).

### P11D submission and payment deadlines

A P11D form needs to be completed for each relevant employee and director on an annual basis, taking into account all benefits and expenses for the UK tax year (6 April to following 5 April). The P11D (b) form and individual P11D's must then be submitted by **6 July** following the tax year. **Example:** for the UK tax year 6 April 2014 to 5 April 2015, all items need to be reported and the forms submitted by 6 July 2015.

The national insurance liability should be paid by the employer by **19<sup>th</sup> July**.

### Penalties and interest

The tax law relating to preparing and submitting forms P11D and P11D(b) is very strict. Employers can find themselves penalised for not getting things right.

Late payments of national insurance will trigger interest calculated at the official rate used by HMRC.

## **Other considerations:**

### **Dispensations**

To avoid the submission of routine expenses payments and benefits that would clearly involve no extra tax liability the employer can apply for a dispensation from reporting these amounts. This will be granted for specific categories of expenses if HMRC are satisfied that the expenses paid and/or benefits provided would be fully covered by an expenses deduction and the employer is managing and controlling the process properly.

### **PSA**

If the company wants to bear the tax on any benefit or expenses (e.g. staff entertaining, special award for an employee), they can enter into a PSA (“PAYE Settlement Agreement”) with HMRC and gross up the benefit for tax purposes. Any national insurance is then calculated on the gross amount. This needs to be requested and agreed by HMRC for each tax year, and has to be in place by 6 July following the tax year.

### **Form 42: return of director & employee shares**

If there have been any transactions involving shares or share options in the company or group that are held by directors or employees, it is likely that these will have to be separately returned to H M Revenue & Customs on form 42. The timetable for filing form 42 is broadly the same as for forms P11D but please seek advice before any allocation of shares, as separate payroll filing or tax elections may be required.

## **How can we help?**

We can assist with all expenses and benefits reporting, including:

- Completion of forms P11D and P11D (b)
- Online submission of the forms
- Calculation of Class 1A national insurance liability
- Preparation of business expense claims for individual employees
- Advice on dispensation and PSA applications
- Submitting requests for dispensations and PSA’s
- Calculating grossed-up tax and national insurance for a PSA
- Completion of form 42