

Forms P11D and PAYE agreements

The annual chore of P11D completion raises the question of whether the administration burden can be reduced - for employers but also for employees - by proper use of dispensations or PAYE Settlement Agreements (PSAs). Dispensations and PSAs both have the effect that benefits that would otherwise have to be returned on form P11D do not in fact need to be so returned. A dispensation is purely an administrative tool and has no bearing on the amount of tax due from either employer or employee. Where a PSA is in operation, on the other hand, the employer is agreeing to meet the tax charge that would otherwise fall on the employee. Both dispensations and PSAs have statutory force - they are not mere Revenue concessions.

Dispensations

A dispensation will reduce the work involved in completing year end returns and reduce the risk of penalties for incorrect completion of P11Ds. Typically it will be used for such items as professional subscriptions and travel and subsistence payments, but it can apply to any item that could be the subject of a valid business expense claim by the employee.

If a dispensation has already been agreed then it is important to ensure that it is kept up to date in the light of changing circumstances and legislation. A review of any dispensations in force can be expected as a routine part of any PAYE compliance visit.

One potential disadvantage is the possibility that applying for a dispensation will lead to a Revenue compliance review. This is certainly not routinely the case but the Revenue interest will indeed be awakened if the process raises doubt in the Inspector's mind about the basic soundness of the PAYE record keeping system. It is therefore a good idea to ensure that dispensations are reviewed and updated immediately following any such visit where this risk factor is eliminated. If dispensations are applied for at other times, it is important to ensure that the records are in good order and that the way the application is made does not imply chaos in the payroll department!

To apply for a dispensation, ask the local tax office for a copy of booklet IR69, which contains an application form. In practice, the Revenue accepts an application by letter but it is still worth seeing the form so that the correct details can be included.

PAYE Settlement Agreements

The point of a PSA is to save administrative time and to generate staff goodwill. The employer agrees to meet the tax liability that would otherwise arise for employees in respect of certain benefits and expenses payments. As the meeting of the tax bill is in itself a benefit, a grossing up procedure is required.

PSAs can be used for benefits or expenses payments that are minor or irregular, or where the practical application of PAYE is difficult, or where benefits are shared between a number of employees such that a fair apportionment would be difficult.

The Revenue are fairly relaxed about the types of benefit that can be the subject of a PSA, including for example the use of a company van, reimbursement of late night taxi fares home that are outside the concessionary exemption, small or one-off gifts to employees, relocation expenses exceeding the £8,000 exemption, shared cars.

Once an item is covered by a PSA then it does not need to be included on form P11D (or P9D) at the year end. Similarly, employees do not need to include such items on their personal tax returns. The tax is payable by the employer by 19 October following the end of the tax year to which the agreement relates.

Employers should bear in mind that a Class 1B national insurance liability will arise in respect of PSA's and furthermore that the Class 1A rules will often have the effect of increasing the Class 1B liability due.

Summary

The above paragraphs summarise very briefly the rules in respect of the two types of arrangement. The arrangements are not hugely complex but some care is needed to ensure that they do not create more trouble than they are worth.

Many employers save time and reduce their exposure to problems with the Revenue by making sensible use of dispensations and PSA's. However, do not apply for either if your PAYE records are in a mess - get the records sorted out first. If you already have arrangements in place with the Revenue then it makes sense to review these on an annual basis to ensure that problems are not being stored up for the future.