Year-end Employment Taxes Reporting

Employment Tax | Tax voice



05 March 2020

Vaneeta Khurana considers employers tax year-end processes and returns, and discusses some common mistakes

As the end of the tax year approaches, there are a number of employer returns to be submitted to HMRC related to benefits and expenses provided to employees. It’s important to ensure that employers have robust processes and controls in place to ensure that the information required to reported to HMRC is accurate and complete

so that the correct amount of tax is paid to HMRC at the right time.

This article discusses some of the year end returns, the top 10 common pitfalls leading to the risk of non-compliance and how good governance can mitigate this risk.

Most common year end forms

PAYE Settlement Agreement (PSA)	This is to report minor, irregular and impracticable items where the employer settles the tax and NICs on behalf of its employees, on a grossed-up basis on expenses such as staff entertaining and gifts.	Payments are due to HMRC by 22 October.
Forms P11D and P11D (b)	This is to report benefits provided to employees including • company cars • health insurance • travel and entertainment expenses • childcare Employees pay income tax on these benefits and employers pay Class 1A NICS	P11Ds submitted by 6 July Class 1A NICs are to be paid by 22 July.
Appendix 4 Short Term Business Visitor (STBV) reporting	Overseas employees who come to the UK on business visits from countries with a double taxation agreement with the UK and perform duties in the UK for the benefit of the UK employer, may be covered by an Appendix 4 STBV Agreement with HMRC. For employees who can be included in this agreement, no UK PAYE deductions should apply	Report due by 31 May

Top 10 common pitfalls when completing year end returns leading to non-compliance

1. Misclassification of client entertaining, staff entertaining, or subsistence may result in incomplete or inaccurate data being extracted to report on the PSA, particularly where expenses categories are broad, for example state ‘meals’.
2. Care needs to be taken when an employee’s temporary workplace becomes a permanent place of work as all travel, meals and overnight stays to a permanent workplace are taxable. For employees with fuel cards, this may mean that the full fuel scale charge can apply as travel to a permanent workplace is considered as private commuting. HMRC would look at actual working arrangements and patterns not necessarily what is in the contract of employment.
3. The costs reported in the PSA should be VAT inclusive – many employers extract the VAT to code to a separate VAT ledger which needs to be added back.
4. Some expenses are paid directly to suppliers via accounts payable on the production of an invoice. It becomes important to have a process which considers these expenses for example deposits paid for staff entertaining events or staff accommodation costs for client conferences.
5. Remember that staff rewards are not considered as trivial benefits under the legislation and should be reported on the PSA unless they are in the form of cash or non-cash vouchers. Cash vouchers count as earnings so, PAYE and NIC would apply through the payroll; non-cash vouchers should be reported on forms P11D with Class 1 NICs paid through the payroll.
6. Many employers reimburse home broadband costs for employees who are homebased. Remember that unless there is a second phone line at the employees’ home, only itemised business calls can be reimbursed tax free as broadband has a dual purpose and the business element cannot be separated. Many employers provide a homeworking allowance to cover such costs within HMRCs tax free limits.
7. Where employers have registered to payroll benefits there is still a requirement to complete the form P11D (b) for Class 1 A NICs. There could also be P11D reporting obligations for employers that payroll benefits for either benefits which cannot be ‘payrolled’ or where amounts have not been included in

payroll (e.g. reflecting a premium increase).

8. Rules came into effect from 6 April 2017 removing the tax and NIC advantages for most benefits provided under an Optional Remuneration Arrangement (OpRA). There were some transitional rules for certain benefits such as cars and living accommodation which have now come to an end. This should be considered when preparing forms P11Ds as this places yet another reporting burden on employers.
9. Employers often make the mistake of treating the non-UK tax resident statutory directors as STBVs when they are specifically excluded from this arrangement. Consideration needs to be given to any expenses reimbursed for attending meetings in the UK as these could also be taxable.
10. Many employers are of the view that if visits to the UK total less than 30 days, then there is nothing to report. However, how do they track visits to the UK, particularly if visitors are attending meetings off site and how do they evidence that the visits are not part of a more substantial period?

Conclusion

Non-compliance is often a result of employers not taking reasonable care or misinterpreting the legislation. Having robust policies, processes and controls is important to demonstrate to HMRC that reasonable care has been taken. This has a direct impact on the number of years for which HMRC may seek to recover unpaid taxes as well as any penalties that may be imposed.