

## **PAYE Settlement Agreements**

A PAYE settlement agreement (PSA) can be a useful tool. It enables an employer to agree with HMRC to meet the tax and associated National Insurance on the employee's behalf on certain pre-agreed benefits and expenses.

### **What can be included?**

A PSA is not suitable for all expenses and benefits and an item can only be included within a PSA if it qualifies on one of the following grounds:

- the item is minor, for example, a small gift;
- the item is provided irregularly, for example, taxable relocation expenses and benefits in excess of the tax-free limit; or
- it is impracticable to work out the amount on which the employee should be taxed, for example, if the benefit is shared.

Some items cannot be included, even if they would qualify on grounds of irregularity or impracticality. The list of excluded items includes cash payments and high-value items, such as company cars.

The introduction of the exemption for trivial benefits means that most minor benefits will now be tax-free, removing the need to include them in a PSA.

### **Impact of a PSA**

Including an item in a PSA means that the employer does not need to tell HMRC about it on the employee's P11D (or payroll it). The employee essentially receives the item tax and NIC-free – this can generate goodwill, particularly where the impact of the benefit, such as a gift, would be somewhat lessened by an associated tax bill. However, this all comes at a cost to the employer, as tax is paid at the employee's marginal rate on the grossed up value of the benefit. The employer must also pay Class 1B NIC (at 13.8%), both on the taxable value of the benefits included in the PSA and on the tax paid on those benefits. The Class 1B charge is payable in place of any Class 1 or Class 1A liability that would otherwise arise.

### **Example**

ABC Ltd has a Summer Dinner for its ten employees at a cost of £300 per head. All the employees pay tax at 40%.

The tax payable by the company is £2,000 (40% (£300 x 100/60) x 10)).

The Class 1B NIC is £690 (13.8% ((10 x £300) + £2,000)).

The total amount that the employer must, therefore, pay to settle the PSA is £2,690.

### **Setting one up**

Currently, the PSA must be agreed with HMRC before 6 July following the end of the tax year to which it relates (so by 6 July 2017 for 2016/17). This is the P11D deadline. However, the rules are to be simplified from 6 April 2018, removing the need to agree the PSA in advance.

### **Deadlines**

The tax and NIC due under the PSA must be paid by 22 October after the end of the tax year where payment is made electronically, and by 19 October otherwise