Hardship loans to employees

To help employees out during the Covid-19 pandemic, employers may provide ‘hardship’ loans to employees. Where loans are provided, what are the tax implications?

No special rules

There are no special relaxations to deal with loans provided to help employees meet financial obligations during the Covid-19 pandemic; the usual rules for employment related loans apply.

Exemption for small loans

Under the beneficial loan rules, no tax charge arises if the outstanding loan balance does not exceed £10,000 at any point in the tax year. This limit applies to the total of all loans made to the employee, not to each separate loan.

As long as this limit is not exceeded, there is no tax to pay and nothing to report to HMRC.

Taxable loans

If the outstanding loan balance is £10,000 or more at any point in the year, the loan is a taxable cheap loan and the employee is taxed on the benefit of the loan. The amount charged to tax is the difference between the interest payable on the loan at the official rate and the interest, if any, payable by the employee. The official rate of interest is set at 2.25% from 6 April 2020.

Where a loan is taxable, the taxable amount can be worked out on the average loan balance or by reference to the amount outstanding each day if this produces a better result.

The loan must be reported to HMRC on the employee’s P11D, and the taxable amount included in the employer’s Class 1A National Insurance computation.

Where hardship loans are made to employees, ensure that they understand the associated tax implications.