

P11D and they payrolling of benefits.

Mark Kingston - Let me start today's episode with a question, if you have your own business what is the thing in your business you least enjoy doing, what task or implication of running a business do you least enjoy? I have asked this question to some of our team here at Critchleys and I am joined today again by Chanelle Webb from our payroll team, Hi Chanelle .

Chanelle Webb - Hi Mark .

Mark Kingston - And Chanelle, one of the answers that you get frequently from clients is the whole area of the pay rolling of benefiting or P11D's .

Chanelle Webb - Absolutely.

Mark Kingston - Now on a scale of 1 to 10, 10 being absolutely totally and 1 being not at all, how much stress and tension and pain does the whole area of P11D's cause the clients that you have met and talked too.

Chanelle Webb - Depending on the clients somewhere between 7 and 9.

Mark Kingston - So this is a quite a high pain threshold. Now if you are listening to this and you are like what is a P11D, let's start there, Chanelle just demystify what these wonderful tax acronyms and numbers mean for us, P11D please.

Chanelle Webb - P11D is a code made up by HMRC, but fundamentally it is a way for employers to report benefits that they may give to their employees that aren't processed through the payroll and that could have tax implications.

Mark Kingston - So for example.

Chanelle Webb - So an example of that would be health care, BUPA plan, they attract P11D .

Mark Kingston - Or,

Chanelle Webb - Company car.

Mark Kingston - Company car, gym membership.

Chanelle Webb - Gym membership, fuel card, personal mileage.

Mark Kingston - Right, and those are just a few and we should say at the outset that this podcast really doesn't constitute specific advice because this is an area more than most which is defined by amazing amounts of complexity and different levels of tax applicable to different types of benefits, so what we are trying to give you hear is just a flavour, ok so if I am employee, and my company gives me a company car let say or a health insurance plan as a fringe benefit of working for them. There is a tax implication on that but as it stands that is not put through the payroll and therefore the tax isn't easily paid through that route. So P11D is what, a declaration?

Chanelle Webb - So it is a declaration that you have paid out, for example a health care benefit say of £500.00 to that employee on their behalf.

Mark Kingston - Ok.

Chanelle Webb - What then happens is once you have made that declaration that is then the employees tax code is then adjusted by the value of that £500, so currently the tax code sits at £11,500, their tax code would become £11,000 and that would then be sent from HMRC to the payroll provider, in house payroll administrator so that the payroll is changed and what would happen is the employee would pay then more tax through their salary.

Mark Kingston - But down the line?

Chanelle Webb - But down the line.

Mark Kingston - Ok so when the system works as it should the employer is aware that there is a taxable P11D sort of benefit, and they declare that to HMRC, HMRC notify them and make a tax code change.

Chanelle Webb - Yes.

Mark Kingston - That if fed back to the payroll who then in time, and this could take months presumably?

Chanelle Webb - Yes it has got slightly quicker but it still can be anything, say from when the submission is made, somewhere between April and July, of each year, it could be anywhere between August and November before that actually changes.

Mark Kingston - So there is some lag but that change in tax code basically means that the tax due is recouped from future payrolls.

Chanelle Webb - Yes.

Mark Kingston - Ok. Now why is it that most people dread, loathe, fear, avoid this whole area. Why has it caused some much confusion and distrust?

Chanelle Webb - Each benefit is different which means that it could have a different calculation, different tax rules for tax and national insurance.

Mark Kingston - So it is complicated.

Chanelle Webb - It becomes complicated and people, and time consuming, and it is time a lot of businesses don't have.

Mark Kingston - And is there also an implication for either getting it wrong or not filing at all?

Chanelle Webb - Absolutely, so getting it wrong, not only does it have an implication for the employer, they do have the ability to adjust, but if that happens frequently HMRC could trigger an audit, secondly it is an implication for the employee. They could end up with a tax bill purely by the fact that the right information hasn't gone over to HMRC.

Mark Kingston - Now what we describe so far has been the case, has it not Chanelle for the last number of years.

Chanelle Webb - Yes.

Mark Kingston - P11D has never been easy and that just the way it is, but the plot thickens somewhat over that last little while, tell us about that, what's gone on.

Chanelle Webb - So two years ago, HMRC withdrew end of year question, so ever year what used to happen was when you finalised your payroll for the end of the tax year you would answer a number of questions and one of those questions was are P11D's due. That that told HMRC whether or not they needed to contact the employer, send them the relevant forms and tell them that they needed to submit P11D's. Now that has been taken away.

Mark Kingston - For reasons best known to...

Chanelle Webb - Yes, to man or dog!

Mark Kingston - Ok so on what basis then do HMRC decide to send you a P11D request, or notification?

Chanelle Webb - I would have thought it should have been based on historic, but this year, what we have noticed hugely is that randomly lots of people have had their P11Db form submitted to them, telling them that they have P11D's due and they have never had them. And I would probably say we have not short of 150 of them through this year.

Mark Kingston - That weren't expected.

Chanelle Webb - Yes.

Mark Kingston - So this is one of those awful moments where you open the post and there is something that looks very serious which you either, which many people would just not understand, and not because of anything fault of their own, but because they have never had to deal with it before, and for reasons we don't fully understand HMRC are raising these.

Chanelle Webb - Yes.

Mark Kingston - For business that have never perhaps ever had to fill one in before.

Chanelle Webb - Yes.

Mark Kingston - Ok. I am just interested, how have you seen, you see the industry working, more than most of us, how have you seen people respond to this.

Chanelle Webb - So people have responded in different ways. Some people have panicked, phoned up, said what's this, I don't have them, but we have been able to advise them and got them to do a nil declaration online, others have put their head in the sand, and said I don't have them, and they have never seen the form before and have just ignored them.

Mark Kingston - Which is very easy to do, because if it is a system you don't understand and you don't even understand the implications of getting it wrong it could be quite easy to think well, I know I don't have any of these benefits, so it's just not for me.

Chanelle Webb - Yes.

Mark Kingston - Whereas your point just then was, if I back track a little bit, even if you have nothing to pay, if they have raised a P11D request for you, you have got to submit a nil return and failure to do so could result in a fine.

Chanelle Webb - A fine .

Mark Kingston - So if you get a letter you have got to respond to it.

Chanelle Webb - Yes.

Mark Kingston - You can't just not respond to it. Ok, so in the event, so that's for people who get letters that haven't previously had them, and do a nil declaration. Just lastly then, as we come in to land Chanelle, what should you do if you have a P11D because there are benefits to employees that need to be taxed. I mean there is a new, there is a new way that has come in.

Chanelle Webb - Yes

Mark Kingston - Just tell the folks about that

Chanelle Webb - So the new way is pay rolling of benefits, so it was trailed last tax year, and this tax year they allowed anybody and everybody to sign up to pay rolling of benefits, they can payroll all of their benefits apart from accommodation, and loans. And what that means is it happens real time. The employees are taxed on that benefit across a period of 12 months, or 52 weeks depending on your payroll cycle and their tax codes aren't changing in six months' time. They are not going to leave their current job and then still be paying for their health care benefit in eight months' time.

Mark Kingston - So employers at the end of the year, they would, what's the best sort of three steps they would take, they would raise their P11D for loans and accommodation which are not covered through pay rolling.

Chanelle Webb - Yes.

Mark Kingston - Ok. What's the other, what else do they need to do.

Chanelle Webb - So they would also contact their payroll provider or the payroll administrator and they would get a report of what benefits went through the payroll, and all they would do is send their P11Db declaration to HMRC, declaring how much Class 1A National Insurance is due on the value of the benefit which currently sits at 13.8%.

Mark Kingston - So there is still steps that people need to go through, but you are saying this pay rolling benefits is certainly something that makes it a lot easier and takes away a lot of the guess work and confusion. If listeners wanted to take advantage of this and haven't yet done so, is there any deadlines or process they need to follow.

Chanelle Webb - Yes absolutely, so you need to register on line. HMRC are currently saying that you need to register before December to ensure that they can update all of your employees' tax codes, but the actual deadline for this tax year is 5 April 2018.

Mark Kingston - Chanelle it is always lovely to have somebody who knows not just the big picture but also can help us navigate some of the details in some of these complicated areas. You have put my mind at rest and I hope that has been the case for other listeners to this podcast. Thank you so much for coming and see you again, hopefully not too soon.

NO! Very very soon.

Bye Chanelle.

Chanelle Webb - Thanks Mark Bye!

**Please note that the content in this Critchley Conversation is for information only.
No action should be taken without seeking professional advice.**