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FOCUS ON

Changes affecting Salary Sacrifice Schemes and Flexible Benefit Arrangements

effective for 2017/18 P11D reporting

If you provide benefits in kind to employees either through salary sacrifice or as an arrangement where the employee can choose between cash and a non-cash benefit, then these changes are likely to affect your reporting requirements. These arrangements are now referred to as Optional Remuneration Arrangements (OpRA).

The changes are designed to remove the tax advantages that arise where non-cash benefits are provided through salary sacrifice or flexible benefit schemes and came into effect from 6 April 2017. They will affect any new arrangement from that date, but also any existing arrangement that is varied from that date.

Special provisions called grandfathering will protect certain arrangements involving living accommodation, company vehicles and fuel provided via an OpRA until 6 April 2021. The provisions also protect other benefits entered into pre 6 April 2017 until 6 April 2018, although the expiry of this could be earlier if the terms of the arrangement are varied before that date. This includes automatic renewals. These arrangements include cars with co2 emissions of more than 75g/km, living accommodation and school fees (providing the arrangement relates to the same child and school).

Note that the rules currently do not affect payments into pension schemes, employer provided pension advice, childcare vouchers and workplace nurseries, cycle to work schemes and cars with co2 emissions of 75g/km or less.

Non cash benefits under OpRA are still taxable in their normal way, but are now valued differently. Therefore, unless the benefit is subject to class 1 contributions, then class 1A will continue to apply. Please also refer to our separate guidance where non cash benefits are payrolled rather than reported on forms P11D.

The valuation of the non cash benefit to be included on the P11D form (or the payslip if payrolling is adopted) is now calculated as the higher of the salary given up (less any amounts made good by the employee) and

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the cash equivalent of the benefit in kind, calculated by reference to the current legislation and normal rules.

This will have an impact on benefits provided that have otherwise been covered by exemption. The taxable value of the benefit in these cases, for example a mobile phone, is nil and therefore under the new rules the amount liable to NICs is the amount foregone being the higher amount.

Therefore savings are still possible, but restricted to primary class 1 contributions and Apprenticeship Levy.

Action

Review arrangements to identify amounts that need to be captured for the P11D reporting process for 2017/18.

Ensure employees understand the impact of the change in the rules for taxation of OpRA's.

Contact us

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