

# Trap for remuneration packages

**Faye Armstrong** warns of VAT rule changes for staff benefits



● Gifts to staff should cost less than £50 ... or VAT will have to be paid.

Something rarely a top consideration when thinking about staff pay and benefit packages is VAT. However a recent VAT case which Astra Zeneca fought as far as the European Courts, means that VAT now has to be paid over on some parts of staff remuneration packages.

The new rules apply where an employee receives a benefit such as vouchers in return for a deduction from their salary. These schemes are often called salary sacrifice schemes and common examples are giving

vouchers to staff or the cycle to work scheme.

In the past, as long as the deduction from the employee's salary was made from gross pay the VAT treatment was very beneficial. It could be claimed by the employer when they purchased the voucher or cycle, but did not need to be paid over when the deduction was taken from the employee's gross salary.

Astra Zeneca had a voucher scheme that HMRC took a dislike to and

challenged. Astra Zeneca lost the case and the result was that from January 1, 2012, if a deduction is taken from an employee's pay in return for a benefit, whether from gross pay or net pay, the deduction must be treated like a payment in return for the benefit.

If the benefit would have been subject to VAT if sold by the practice, such as the hire of a bicycle, or the sale of a retail voucher, then VAT must be paid over on the deduction taken from the employee's salary.

**Salary sacrifice agreements or deductions for childcare vouchers are outside the new rules as long as the employer is not charged VAT on the cost of the childcare from the nursery.**

## **Faye Armstrong**

is a partner at Dodd & Co, an AISMA accountant.

Fortunately, if the cycle to work scheme was in place before July 28, 2011, the old rules can continue to be used. The old rules can be used for other salary sacrifice schemes that were in place on July 28, 2011, but only until the employee's first pay review after this date. Salary sacrifice agreements or deductions for childcare vouchers are also outside the new rules as long as the employer is not charged VAT on the cost of the childcare from the nursery.

The introduction of these new rules gives a good opportunity to have a look at other staff benefits and see whether they are being treated correctly for VAT:

- **Gifts to staff**

Value added tax can be claimed on the cost of buying gifts for staff according to normal partial exemption rules. However, if the gifts given to an individual in a year cost more than £50, VAT has to be paid over when the gift is given to the member of staff.

- **Staff uniforms**

The VAT on staff uniforms can be reclaimed subject to normal partial exemption rules, as long as they are for use at work.

- **Computers**

If a computer is provided for home working, VAT can be reclaimed subject to normal partial exemption rules. If the computer can be used by the employee privately as well as for work purposes, a proportion of the VAT should be disallowed to reflect the private use. The same applies to computers bought by partners for use at home.

- **Mileage claims**

If you pay staff mileage claims, part of the 45p per mile is treated by HMRC as being for fuel, with the remainder being for wear and tear on the car and so on. The fuel element varies from 10p to 26p per mile and the rates are published on HMRC's website. If your staff members give you a fuel receipt covering the fuel element of their

mileage claim, you can put the VAT on that fuel element into your normal partial exemption calculations.

- **Staff entertainment**

Fortunately, staff parties and meals provided for staff are both costs on which the VAT can be claimed in accordance with partial exemption rules. More generous practices that allow staff to bring a guest to the Christmas party will have to disallow the VAT on the cost of entertaining the guest though, thanks to a case brought by HMRC against a firm of accountants.

- **Mobile phones**

Value added tax can be claimed on the cost of providing a mobile phone to an employee, though a proportion of the VAT will have to be disallowed to reflect their private use of it. ■

Faye Armstrong can be contacted on 01228 530913 or [faye@doddaccountants.co.uk](mailto:faye@doddaccountants.co.uk). To find an AISMA accountant in your area go to [www.aisma.org.uk](http://www.aisma.org.uk)