



Benefits In Kind Update

Gordon gives, and Gordon takes away



No more tax-free computers!

Disappointingly, last month the Chancellor of the Exchequer used the 2006 Budget to remove an important and useful tax break on staff benefits. As explained in Topical Tips 59, the government had previously allowed a tax-break whereby employers could loan IT equipment (usually computers and printers) worth up to £2,500 to staff. Subject to the arrangement meeting all the rules, this was not a taxable benefit. Also, the employer could reclaim VAT and claim tax relief on the equipment cost. In many cases this was done using a salary sacrifice arrangement, leaving the employer with a National Insurance saving and the employee with a half-price computer. Originally the government heralded this tax-break as being an important IT literacy boost to the UK economy, but they've now decided they were too generous!

So where are you now if you have such an arrangement?

Arrangements instigated before 6 April 2006 can continue with no tax.

If you provide a new loan to staff after 5 April 2006 then this will be a benefit in kind taxable on the staff and you will have a Class 1A NIC bill in 2007.

You could consider selling or giving the equipment to the staff (on an individual case by case basis) but this transaction should be at market value, or any undervalue will be taxable. If you choose to give the equipment to staff then this will be a one-off benefit in kind at the market value of the equipment at that date. They will pay tax and you will pay NIC.

Beware, many employers have provided the equipment under leasing arrangements with third party providers in return for a salary sacrifice. These too will no longer work after 5 April 2006. If a new lease is entered into after that date the taxable benefit will be the value of the lease. This will have to be reported on form P11D and will be taxable on the employee, and the employer will have to pay Class 1A NIC.

Barnes Roffe Topical Tips

- The market value of second hand computers is low, but get and keep evidence of the value used to show Her Majesty's Revenue and Customs (HMRC) should they ask.
- Be careful about software licences if you transfer ownership of the computer to staff. If you have a business licence from Microsoft that covers the software on the computer that is on loan then this might no longer be valid and you might have to consider buying licences, or advising staff to do so.
- Don't forget that selling to an employee is a supply and you should account for output VAT on the transfer.
- Consider notifying HMRC now to alter notices of coding for employees to avoid an increased tax bill at the end of the year, or a double reduction to their following year's tax code.
- It might be possible to reduce the benefit if there is a significant proportion of business use of the assets. This could be difficult to prove, so you should ensure your records show the employee did a reasonable amount of work from home.

Consult your Barnes Roffe LLP contact Partner for guidance in this important area.