

PAYE Health Check – what to look out for

HMRC may require UK companies to determine the correct tax reporting and treatment is being followed in areas such as Expenses Management, Benefits, Share Reporting and use of Employer of Record (EOR)

Blick Rothenberg has extensive experience of HMRC compliance checks into PAYE and National Insurance.

Key areas HMRC look at when conducting a PAYE audit into a business where the greatest risks may occur are as follows:

Expenses



Contrary to popular belief, the reimbursement of an expense is taxable income in the hands of the employee. Only specific exemptions and deductions can remove the expense reimbursement from a charge to tax and NICs. HMRC look for the following when examining expense reimbursement:

- Documented expenses policy to determine the correct tax treatment
- Travel to and from the office or other workplaces
- Working remotely i.e. from home or overseas
- Staff entertainment costs
- Telephone or broadband costs
- Working from home expenses and how these are treated
- Travel expenses managed for these employees

Benefits



The suite of benefits the employer provides for staff and how they account for tax on those benefits form a significant part of an HMRC employer compliance check. In particular, the following questions should be asked:

- How are benefits taxed? Is there a P11D process or a payrolling of benefits agreement in place?
- Does the employer use a PAYE Settlement Agreement?
- Are company vehicles or pool cars provided and how are these treated for tax purposes?
- Do directors have overdrawn loan accounts and are these included on P11Ds?
- Are employees ever provided with food and drink at work?
- Are salary sacrifice benefits offered?
- Do employees get recognition in the form of prizes, vouchers or points and how are these accounted for?
- Is a workplace nursery scheme in operation and how is it taxed?

- Does the business use a discount scheme such as Perkbox?
- Do employees at this business receive tips or gratuities?

Equity & Incentive Plans



What long term incentive arrangements are in place for employees?

- Does the business operate an approved share plan and was it self-certified with HMRC?
- Does the business operate an unapproved share plan? If so, has advice been taken on the tax treatment?
- Are online ERS reports filed each year? Are all share plans registered with the HMRC portal?
- If restricted shares were granted have s431 elections been kept on file?

Employee Status



HMRC will on occasion open PAYE compliance checks solely looking into off-payroll workers and contractors. On other occasions, this will form part of a wider employer compliance review by HMRC. Below are some of the key matters that HMRC would look at in determining the level of risk of non-compliance with the off-payroll working rules:

- Assessing the employment status of workers who provide services via an intermediary such as a Personal Service Company.
- Assess the employment status of off-payroll workers who provide services directly.
- Does the business use agency staff?
- Does the business use umbrella companies and do they have safeguards in place regarding mini-umbrella company fraud?
- Does the business understand that individuals provided by offshore intermediaries pose a higher risk of non-compliance?
- Does the business use Employer of Record services and if so do they understand and manage the compliance and legal risks of doing so in each relevant jurisdiction?

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