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## A Trivial Matter

A new statutory exemption applies for trivial benefits from 6 April 2016. Trivial benefits are tax-free to employees and do not need to be notified to HMRC on form P11D.

What is a 'trivial' benefit?

To count as 'trivial' the benefit must satisfy the following conditions:

- the cost of providing it is not more than £50;
- the benefit is not cash or a cash voucher;
- the employee is not contractually entitled to the benefit; and
- the benefit is not provided in recognition of particular services performed by the employee as part of the duties of their employment, or in anticipation of employees.

If the cost of a benefit is more than £50, the benefit does not apply and the full amount is taxable, not just the excess over £50.

Determining the 'cost'

A £50 ceiling applies in determining whether a benefit is trivial or not. It is the cost of providing the benefit to each employee that is critical, rather than the total cost to the employer. It does not matter whether the employer provides a benefit to only one employee or to, say, 500 employees.

For the purposes of the exemption, the cost is the VAT inclusive cost, irrespective of whether the VAT is recovered by the employee.

Where a benefit is provided to a group of employees and it is impracticable to work out the cost to each individual, the benefit will be regarded as trivial if the average cost does not exceed £50 (provided that the other conditions are also met).

It will normally be apparent whether it is possible to work out the actual cost or whether it is necessary to use the average cost. HMRC advise taking a common-sense approach, although they provide examples of where an average cost valuation would be acceptable in their guidance. This would include, for example, a meal out for five employees where the total bill came to £240. In this situation, HMRC would accept an average cost of £48 per person (making the benefit trivial), rather than expecting the employer to analyse the bill to work out the actual cost for each employee. By contrast, if at Christmas, employees are provided with a bottle of wine costing £15 per bottle and directors with a bottle of champagne costing £70, the actual costs should be used. The wine provided to the employees could be ignored as trivial, while the directors would be taxed on the full £70 cost of the champagne.

Close companies – additional cap

The total amount of tax-free benefits that can be provided to directors and office holders of close companies and to their families is capped at £300 a year. This limit is known as the annual exempt amount. Any benefits that take the total cost over the limit and any subsequent benefits are taxed in full.

Example

Paul is a director of a close company. He receives six benefits costing £45 each in the first ten months of 2016/17. These benefits, which have a total cost of £270, are tax free. He then receives a further benefit costing £40. Although the cost of the benefit is less than £50, it takes him over the £300 annual cap and the benefit is taxable in full.

Had Paul not been an officer of a close company, the final benefit would be within the exemption.

Partner note: ITEPA 2003, s. 323A, 3232B.

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