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A PAYE Settlement Agreement (PSA) is an arrangement between an employer and HMRC under which the employer agrees to pay the tax on benefits-in-kind included within the PSA on their employees' behalf. If you had a PSA in place for 2021/22, you will now need to pay the tax and National Insurance due under the agreement.

Key dates

If you pay the tax and Class 1B National Insurance due under your PSA electronically, the payment must reach HMRC no later than 22 October 2022. Note that this falls on a Saturday this year, so allow time for the payment to reach HMRC's bank account. If you opt to pay by cheque, the cheque must reach HMRC no later than 19 October 2022.

Nature of a PSA

A PSA can be used if you want to pay the tax on benefits provided to your employees. Not all benefits are suitable for inclusion in a PSA; to qualify the benefit must be minor, provided irregularly or of a type in respect of which it is impracticable to value or to divide between employees. You cannot include cash payments or high value items such as company cars.

Once a PSA is in place it remains in place until it is altered or cancelled by you or by HMRC. Consequently, you must remember to check each year that it remains valid, and make any necessary changes before 6 July after the end of the tax year.

Tax due under a PSA

Paying the tax due on a benefit-in-kind is itself a taxable benefit. Consequently, when working out the tax that it due under the PSA, you need to gross up the tax payable.

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In working out the tax that is due under the PSA, you need to take account of the value of the benefits-in-kind provided to your employees and the rates at which the employees receiving the benefits pay tax. When working out the value of the benefits, include VAT, even if this is subsequently recovered.

If benefits provided to Scottish taxpayers are included in your PSA, you will need to use the appropriate Scottish rates of income tax when working out the tax due under your PSA.

EXAMPLE

You provide benefits valued at £200 to 50 employees. Of those employees, 40 pay tax at the basic rate (20% for 2021/22) and 10 pay tax at the higher rate (40% for 2021/22).

The value of the benefits provided to the employees paying tax at the basic rate is £8,000 (40 x £200).
The tax due at the basic rate of 20% is £1,600 (£8,000 @ 20%).

The grossed-up value of the tax is £2,000 ($£1,600 \times 100 / (100 - 20)$)

The value of the benefits provided to higher rate taxpayers is £2,000 (10 x £200).

The tax due at the higher rate of 40% is 800 (£2,000 @ 40%).

The grossed-up value of the tax is £1,333 ($£2,000 \times 100 / (100 - 40)$)

The total tax due under the PSA is £3,333.

National Insurance due under the PSA

Class 1B National Insurance is payable in place of the Class 1 or Class 1A National Insurance liability that would otherwise arise if the benefit-in-kind was not included in the PSA. Class 1B National Insurance contributions are employer-only contributions. They are payable both on the value of the items included in the PSA otherwise liable to Class 1 or 1A National Insurance and also on the tax due under the PSA. For 2021/22, the Class 1B rate is 13.8%.

EXAMPLE

The facts are as in the example above.

The total value of benefits-in-kind provided to employees is £10,000.

The tax due under the PSA is £3,333.

The Class 1B National Insurance due under the PSA is £1,839.95 (13.8% (£10,000 + £3,333)).

Complete Form PSA1

You will need to complete form PSA1 to tell HMRC what you owe. This can be done online at <https://www.gov.uk/government/publications/payee-payee-settlement-agreement-psa1>. Alternatively, you can fill in the form on screen and print it off and send it to HMRC.

Making your payment

You can pay the tax and Class 1B National Insurance due under your PSA in a variety of ways, including via online banking, direct debit, debit or corporate credit card or by cheque. Further details, including the option to pay online, can be found at <https://www.gov.uk/pay-psa>. You will be charged interest if you make your payment late.

Please call **01753 888 211** or email info@nhllp.com if you need help with any of the issues raised in this alert.