

# PAYE Settlement Agreements



*“ straight talking, never without heart... ”*



## What is a PAYE Settlement Agreement?

Benefits in kind and taxable expenses provided to employees are typically reported to HMRC via annual P11D and P11D(b) forms, on which the employee is liable for paying Income Tax at their marginal rate and the employer is liable for Class 1A NIC.

A PAYE Settlement Agreement (PSA) is an alternative method of reporting employee benefits in the following circumstances:

- Minor – e.g. staff incentive awards, staff discount schemes, small gifts/vouchers
- Irregular – ad-hoc or one-off costs, e.g. staff relocation expenses, long service awards are not tax exempt
- Impracticable – costs that are difficult to apportion between employees, e.g. staff entertainment, working lunches etc.

## Why have a PSA?

Many employers opt to use a PSA as it:

- *Generates staff goodwill* - without a PSA, staff awards, or events would need to be apportioned between all staff who benefitted and they would be personally liable for the tax due on them. Such staff benefits are typically provided by employers “free of tax” to the recipients, and a PSA is the way to achieve this.
- *Saves time and cost* – apportioning benefits provided to all staff takes time and resources, and for larger employers it may simply be impractical. PSAs cut out unnecessary calculations and report the summary/total costs instead.

## How does a PSA work?

By entering into a PSA with HMRC, the employer reports the agreed benefits and pays the tax and NIC due on them on a grossed-up basis – i.e. paying the tax due on those benefits on behalf of the employees.

## Deadlines & Penalties

The PSA contract must be agreed with HMRC before the 6<sup>th</sup> July following the tax year to which it first applies (e.g. by 6<sup>th</sup> July 2021 for the 2020/21 tax year). The exception to this is where staff vouchers are provided, in which case the contract must be agreed with HMRC before any vouchers are given. The PSA agreements then remain in place for all subsequent years until they are cancelled.

The PSA contract usually requests that the PSA calculations are generally submitted by 31 July, but this deadline is not enforced, and many calculations are submitted in August/September.

Payment of the calculated tax/NIC must be made to HMRC by 19<sup>th</sup> October, with interest charged on any late payments.

## Exemptions & Trivial Benefits

It's important to note that not all staff benefits are taxable and need reporting to HMRC. There are two key exemptions to be aware of:

- Trivial Benefits (up to £50)
- Annual staff functions (up to £150)

There are qualifying conditions that must be met for these key exemptions to apply, and they can be very helpful in exempting significant staff benefits from tax and NIC.

## How we can help you

Our experienced team of employment taxes experts are always on hand to assist you with any benefits and expense queries you may have – feel free to get in touch with us.

We provide a comprehensive annual PSA service and would be delighted to assist you in setting up a PSA and completing the required calculations to ensure that your annual compliance is dealt with efficiently and correctly.

Please contact our team to find out more about our PSA service and for a free quotation:



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