



BENEFITS IN KIND

Overview

The Manx Income Tax Division (MITD) issued the “Benefit in Kind Guide” (**GN40**) in February 2008. This was updated in 2009. The guidance document can be read in full at the following link: <http://www.gov.im/lib/docs/treasury/incometax/pdfs/gn40090506fullbenefitinkindgui.pdf>.

This article briefly covers the main issues within the guide and highlights the need to strictly follow the guidance.

What is a Benefit in Kind (BIK)?

A BIK is 'consideration' provided by an employer to a director or an employee in lieu of cash.

What types of BIK are liable to income tax?

Common BIKs include a company car, the provision of living accommodation, payment of an employee's personal liabilities, personal use of an asset made available by the employer, or transfer of an asset to an employee at less than the market value.

What types of BIK are not taxable?

Certain BIKs are specifically exempted from an income tax charge, for example meals in employer's canteen, electric cars, and free or subsidised car parking if used principally for business purposes.

There is also a general exemption from reporting chargeable BIK if the aggregate value of the benefits for any employee for the year does not exceed £400. Car and car fuel benefits are always fully taxable, but the general £400 exemption for other benefits is still available even where a car is provided.

Who is subject to the BIK rules?

All employees and directors are subject to the BIK rules. A charge also arises where the BIK is made available to the family or household members of an employee or director. “Family or household” means the employee's/director's spouse, children and their spouses, parents, dependants and guests.

How is the BIK calculated?

The value of a BIK depends on the type of benefit provided. The three main valuation methods are shown below:



1. The BIK of company cars is by reference to the cylinder capacity of the car.
2. An asset transferred to an employee is valued at the market value at the date of transfer.
3. The use of a company asset is generally calculated as 20% of the asset's market value when first made available. Other methods can be used depending on the nature of the asset.

What forms does the employer need to complete to report a BIK?

An employer is required to complete a form T9 for every person who has a taxable BIK during a year.

Once the form is completed, one copy should be given to the employee/director concerned to submit with his/her personal income tax return and a second copy should be submitted with the employer's annual return (form T37) before 6 May following the end of the tax year.

Dispensations

An employer can apply to the MITD for a dispensation.

A dispensation is a notice issued to an employer by the MITD that relieves him from the requirement of reporting these expenses payments on a form T9.

A dispensation can cover almost any type of expenses payment. Payments typically covered by a dispensation include reasonable costs of business travel, subsistence and entertaining, and mileage allowance, up to the tax free amount, paid to an employee when he/she uses his/her own vehicle for business purposes.

A dispensation cannot cover any round sum allowance, for example £20 per month paid in case the employee uses his/her own vehicle for business purposes.

To apply for a dispensation a written request should be sent by the employer to the MITD setting out:

- The employees or group of employees to be covered by the dispensation;
- The types of expenses payments or reimbursements to be included;
- The amounts involved; and
- Details of the system for controlling and authorising the payments.

An agreed dispensation will clearly state which employees it applies to and who is excluded.

An employee or director who authorises his/her own expenses will be excluded from a dispensation and the employer will have to report all expense payments on a form T9.

A dispensation continues to be effective as long as the circumstances remain unchanged or until it is withdrawn.

Employer meeting the tax charge on a BIK

The current practice is to allow employers, by prior agreement with the MITD, to settle the tax charge on certain benefits they provide to their staff. The charge is calculated at the higher rate of tax, (currently 20%), on the BIK value.

There is then no requirement to complete a form T9, and no BIK value appears in the employee's assessment.

If an employer wishes to settle the tax on a BIK they should contact the MITD, provide full details, and payover the tax.

Summary

We recommend a careful review of the published GN40 BIK guide, and strict adherence to the guidance, as getting it wrong can be costly to put right after the event!

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