

Payroll PAYE Settlement Agreements

A PAYE Settlement Agreement (PSA) can make it easier to deal with PAYE tax and National Insurance issues on certain minor or irregular expenses and benefits. Having a PSA in place means that you take on your employees' tax and National Insurance liabilities for any items covered by the arrangement.

NB It is not required for reimbursed business expenses that have to be reported on a P11D, as they can be covered by a dispensation (see our separate guide).

What is a PSA?

A PSA is a scheme you can use to settle any PAYE tax and National Insurance due to HMRC on certain types of expense and benefit in kind. It can help to ease administration on minor and irregular expenses and benefits that are difficult to value for P11D purposes.

Any expense or benefit that HM Revenue & Customs (HMRC) have agreed to include in a PSA:

- will not need to be processed through your payroll
- will not need to be included on form P11D or P9D
- will not be charged to Class 1A National Insurance at the end of the year

Instead, you settle the tax and National Insurance due with a single payment at the year end. The tax due is grossed up to take into account the tax rates payable by each employee covered by the PSA. The National Insurance charged is Class 1B and this is calculated not just on the value of items covered by the PSA, but also on the tax paid under the PSA, because paying an employee's tax liability provides them with a further benefit.

What expense and benefits can be covered by a PSA?

A PSA may not apply to all of the expenses and benefits you provide employees as there are only three qualifying categories:

- minor items, eg a small present for an employee or occasional private use of a pool car
- irregular items, such as a spouse occasionally accompanying an employee on a business trip, or relocation expenses in excess of the £8,000 exemption
- items where it is difficult to operate PAYE or determine a value for P11D purposes, such as shared benefits that are difficult to attribute to individual employees

It is worth noting that there are certain things that HMRC will specifically not include in a PSA, mainly:

- cash payments and round sum allowances
- large benefits provided regularly to individual employees
- shares
- items on which tax has already been deducted through PAYE
- items which are already reflected in an employee's tax code
- any profit arising from mileage payment schemes

Applying for a PSA

There is not an application form for a PSA, instead you must apply in writing to HMRC, setting out the expenses and benefits you wish to be included in the agreement. Once your application has been approved, HMRC will formally authorise the agreement and send you form P626, which sets out the terms of the agreement.

Applications for new PSAs must be sent to:

HM Revenue & Customs Local Compliance
Specialist Employer Compliance S0794
PO Box 3900
Glasgow
G70 6AA

Although you can apply for a PSA at any time, the date of the agreement does affect the items that can be covered, as follows:

- PSA agreed before start of tax year it applies to - no restrictions, all qualifying expenses and benefits will be covered
- PSA agreed during the tax year it applies to - it will not cover any items provided prior to the date of the agreement where PAYE has or should have been operated, or any items included in the employee's tax code for the year
- PSA agreed after the tax year it applies to but before 6th July - it will not cover any items where PAYE has or should have been operated, or items included in the employee's tax code for the year

Operating a PSA

Where you have a PSA in place, after the end of the tax year you should complete form PSA1, which will help you to calculate the total amount of tax and Class 1B National Insurance payable under the agreement. The form will guide you through the four steps of the calculation:

1. Work out the total value of the expenses and benefits included in your PSA - this amount must be inclusive of any VAT.
2. Calculate the tax due on the items covered by the PSA
3. Gross up the tax figure - you will have to take account of whether employees pay tax at the basic or higher rates.
4. Calculate the Class 1B National Insurance due – this is 13.8% of the sum of the total value of expenses and benefits, plus the grossed up tax amount.

Once you have submitted the completed form to HMRC, they will finalise and confirm with you the total tax and NICs payable. They need to be able to agree the amounts due by 19th October, as payment is due on or before 22nd October.

Please note that a separate payslip and payment instructions will be sent to you – payment of a PSA liability is not made to the usual PAYE account.



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Changes and renewals

If you need to change the items covered by a PSA, you should inform HMRC as soon as possible. The terms of a PSA can be changed at any point prior to 6th July after the end of the tax year to which it applies.

A PSA must be renewed annually and HMRC will send a new agreement to you, usually before the start of the tax year it will apply to. If there have been no changes, you will simply need to sign and return the new agreement. If any changes are required you should notify HMRC as soon as possible.

Need help?

If you would like any assistance with applying for a PAYE Settlement Agreement, or guidance on any aspect of providing benefits to employees, please call us on 01502 370620 or 07919 924273, or alternatively you can email us at nina@waveneytaxsolutions.co.uk.