# TAX & NATIONAL INSURANCE ON VOUCHER INCENTIVE SCHEMES

UK Gift Card & Voucher Association

Rewarding individuals for their commitment is an excellent way to boost satisfaction and productivity in the workplace. However, such rewards will attract income tax and National Insurance Contributions (NICs). This leaflet sets out the different tax liabilities incurred when vouchers are used as rewards and incentives, and explains who has to pay what in some common circumstances.

## THE TAXABLE VALUE OF A VOUCHER

The taxable value of a voucher depends on whether it is a cash or a non-cash voucher.

A cash voucher is one that can be exchanged for a sum of money greater than, equal to or not substantially less than the cost of providing the voucher.

Cash vouchers are taxed in full in the same way as regular pay. Income tax and employee NICs are due on the face value of the voucher, regardless of the cost to the employer, and must be accounted for through the PAYE system.

*The employer provides an employee with a voucher that costs £40 to buy, but which can be redeemed for £50 cash.*

***As this is a cash voucher, the amount chargeable to tax and liable for NICs is £50. This should be accounted for through the PAYE system rather than a PSA or TAS.***

A non-cash voucher is one that is capable of being exchanged for goods or services, and the cash value of which is substantially less than its cost. Non-cash vouchers are treated as benefits in kind, so income tax and NICs are due on the taxable value of the vouchers given to any director or employee earning more than £8,500 per annum. The taxable value is the cost of the provision of the voucher. Therefore, where the employer purchases the voucher at a discount, only the discounted value is subject to tax and NICs.

*An employer gives a voucher to an employee. It can be exchanged for goods at a local retail store. The face value of the voucher is £100, but the employer negotiated a discount and purchased it for £95.*

***As this is a non-cash voucher, the amount chargeable to tax and liable for NICs is £95.***

## REWARDING YOUR OWN EMPLOYEES WITH VOUCHERS

As with all benefits, the employer is obliged to account for tax and NICs on the payroll and record the benefits given to each employee on separate P11D forms, unless they set up a PAYE Settlement Agreement (PSA).

However, using a P11D still leaves the recipient of the benefit liable for tax and employee NICs, and when HMRC claims these back it can diminish any motivational effect. For this reason, it is often better to deliver employee benefits free of all tax and NICs to the recipient by arranging a PAYE Settlement Agreement (PSA) with HMRC. This is an annual agreement negotiated between the employer and HMRC under which the employer pays all due tax and NICs, and is responsible for keeping a record of taxable benefits. This record should note the benefits as well as the sums spent, but does not need to detail which benefits go to which employee as would a P11D. It is important that a PSA is in place prior to providing non-cash vouchers to employees to ensure that no employee NICs are due.

Under a PSA, employee NICs are not due. However, it is up to the employer to ensure that the remaining tax and employer NICs are paid at the appropriate rate. Furthermore, all costs due under a PSA are payable by 19 October after the end of the financial year to which the PSA applies.

***With a voucher bonus awarded in April, NICs would be deducted in April and paid to HMRC in May through payroll. Under a PSA, this payment would not be due until October of the following year – 18 months later.***

However, it will not always be possible to arrange a PSA as they can only apply to benefits that are minor, irregular or impracticable to determine the benefit appropriate to each employee.

## REWARDING THIRD PARTIES

When rewarding third parties, such as sales staff at an external agency, it is not possible to report or account for the taxes due on benefits through payroll or a PSA, so a Taxed Award Scheme (TAS) must be set up to account for any tax. A TAS is a fixed-term arrangement made with the HMRC Incentive Award Unit that enables the donor to pay some or all of the recipient's tax liability on awards provided.

When rewarding third parties under a TAS, the award-giver usually accounts for the recipient's basic-rate tax and employer NICs and records these on a tax return. No employee NICs are due on awards to third parties made under a TAS. The award-giver needs to give recipients a certificate showing the gross amount of award and tax paid for that year. If the recipient is liable for further tax, e.g. he or she is in a higher income tax bracket, it is their responsibility to inform HMRC.

## THIRD PARTIES AWARDING YOUR EMPLOYEES

If a third party arranges to reward your employees with non-cash vouchers under a TAS, they may choose to account for the recipient's income tax and must account for employer NICs (Class 1A). Employee NICs are not due.

If you arrange for or facilitate a third party to reward your employees under a TAS, you will be liable to account for employer NICs and will also be responsible for any reporting for tax purposes.

## KEY FACTS

- When a PSA is used to reward employees, or a TAS is used to reward third parties, delivering benefits is cheaper because the employee NICs are not due
- Setting up a PSA or TAS simplifies administration of taxes on benefits
- Under a PSA or TAS a return detailing benefits awarded does not need to be submitted until after the end of the financial year, improving cash-flow.

## DID YOU KNOW

- Long service awards and payments of up to £5,000 for a good suggestion from an employee can be tax free!*

*Subject to certain criteria being satisfied. For details, contact your local tax office.

# ABOUT THE UK GIFT CARD & VOUCHER ASSOCIATION (UKGCVA)

**T:** 0870 241 6445 | **E:** info@ukgcva.co.uk

The UK Gift Card & Voucher Association was founded in 1996 to promote and represent the interests of UK voucher providers.

The UK Gift Card & Voucher Association has a broad range of aims and objectives:

- To represent the interests of the gift card and voucher industry
- To promote the concept of gift cards and vouchers
- To enhance the standing and raise the profile of the gift card and voucher industry
- To maintain and promote communication between members
- To improve awareness of market developments within the gift card and voucher business
- To address consumer and legal issues relating to the gift card and voucher industry
- To enhance members' knowledge of issues relating to the production, distribution and redemption of gift cards and vouchers, and to establish standards of best practice
- To provide consolidated industry market data to full members
- To promote the UKGCVA as the representative body in areas where the Association has an interest
- To communicate the views and opinions of the UKGCVA to any relevant government department, public authority or other body
- To co-operate with any other organised body or company in furtherance of the general interests of the gift card and voucher industry

The UK Gift Card & Voucher Association does not aim to influence individual member companies to adopt a majority or general view in any aspect of business practice. The integrity of member companies is a basic premise and remains the responsibility of each participating representative. The UK Gift Card & Voucher Association may not represent the views of specific member companies.