

Calculating the tax payable under a PSA—example

Smith and Jones Ltd has a work-force of 1,000 employees, all of whom are provided with benefits in kind during the tax year 1996–97 valued at £50 per head. Some 800 of their employees pay tax at the basic rate, the remaining 200 at the higher rate. The tax payable under a PAYE settlement agreement (for 1996–97, and covering the whole work-force) would be calculated as follows:

Value of benefits provided to <i>basic rate</i> employees (800 × £50)	£40,000.00
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Tax due @ 24% on £40,000	£9,600.00
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Grossed up tax	£12,631.58
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$$£ 9, 600 \times \frac{100}{100 - 24} =$$

Value of benefits provided to <i>higher rate</i> employees (200 × £50)	£10,000.00
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Tax due @ 40% on £10,000	£4,000.00
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Grossed up tax	£6,666.67
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$$£ 4, 000 \times \frac{100}{100 - 40} =$$

Total tax payable by Smith and Jones Ltd under the PSA	£12,631.58
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Add	£6,666.67
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£19,298.25

Alternatively, the value of the benefits could be grossed-up, and tax calculated on that figure in the normal way, with identical results—

Value of benefits provided to <i>basic rate</i> employees (800 × £50)	£40,000.00
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Grossed up value of benefits	£52,631.58
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$$£ 4, 000 \times \frac{100}{100 - 40} =$$

Tax due @ 24% on £52,631.58	£12,631.58
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Value of benefits provided to <i>higher rate</i> employees (200 × £50)	£10,000.00
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Grossed up value of benefits	£16,666.67
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$$£ 4, 000 \times \frac{100}{100 - 10} =$$

Tax due @ 40% on £16,666.67	£6,666.67
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Total tax payable by Smith and Jones Ltd under the PSA	£12,631.58
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Add	£6,666.67
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	£19,298.25
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