

Chapter 13 – Tax and National Insurance contributions (NICs) treatment of payments and/or benefits

This chapter has been produced by HM Revenue & Customs (HMRC) and is intended as a general guide. If you have a query in relation to your own tax affairs you can get in touch with HMRC by phone on 0300 200 3300 (the Income Tax helpline), or visit the HMRC website www.hmrc.gov.uk for further guidance and support.

This chapter covers:

HIGH LEVEL ‘MUST DOs’	1
Tax payment information for provider.....	1
Tax payment information for participant/employee	2
Tax payment information for employer	2
Annex 1 - Guidance for Providers making payments or providing benefits to participants.....	3
Annex 2 - Tax and National Insurance Information for Employees	6

HIGH LEVEL ‘MUST DOs’

Participant leaves the Work Programme to start employment	Give the guidance at Annexe 2 to the former participant	If necessary, both provider and / or employee should contact HMRC for further guidance.
---	---	---

Please be aware:

1. If you make payments or provide benefits to your participant after they have started work you should inform them that tax and National Insurance contributions (NICs) are payable and how this will be done.
2. You can use the guidance in Annex 2 to give to the participant – this will ensure that they have the correct information and know how to contact HMRC if necessary.
3. Failure to account for tax and NICs that are due on payments made to individuals in employment may be subject to penalties in accordance with HMRC regulations.

Tax payment information for provider

4. Providers who make support payments or provide benefits to individuals once in employment should be aware of potential tax and NICs implications for these payments.
5. Payments made by providers to individuals who have found employment are likely to be treated as employment income for income tax and NICs purposes. This means that tax and NICs will need to be accounted for on these payments. The same also applies to non cash payments such as the provision

of travel cards or help towards other work related expenses – these are taxable benefits.

6. This guidance tells you when tax and NICs are payable, what information you need to give to the participant, where you can find further information about your responsibilities and how to account for any tax that is due.

Tax payment information for participant/employee

7. When the participant has secured employment you can use the guidance in Annex 2 to tell your participant about any payments you have made or benefits that you have given and how you have accounted for (or will account for) any tax or National Insurance contributions (NICs) that are due.
8. Further help and information for individuals and employees is available on the HMRC website at: <https://www.gov.uk/topic/personal-tax>.

Tax payment information for employer

9. Providers will need to be fully aware of what they are required to report to HMRC and, in some circumstances, to the employer. Links to further guidance on this are provided in the information below.

Annex 1 - Guidance for Providers making payments or providing benefits to participants

General information for Third Parties

10. When an individual finds work there are a number of ways they can be supported; individuals, providers and employers should all understand that both payments of cash or the receiving of benefits can have tax, National Insurance contributions (NICs) and tax credit implications.
11. Because of the flexibility given to providers it is not possible to give specific advice which will cover all eventualities. This guidance is intended to help you use our existing guidance and highlight the issues and common areas you should consider.

Practical considerations

12. Once an individual enters employment, it's not only their wages or salary that is subject to tax and NICs. Other items received because of their job, such as expenses payments or benefits-in-kind are generally taxable as income from their employment and are considered as earnings for the purposes of NICs.
13. This also applies when expenses or benefits are provided by someone other than the employer - these are known as "third party benefits". The rules for tax and NICs are similar to those which the employer must follow. The third party will also have payment and reporting responsibilities.
14. For example, if a third party provides cash payments they are taxable in the same way as the normal salary received by the individual. The third party provider is responsible for deduction of tax under the PAYE system and must notify the employer of the payments so that the employer can correctly account for any NICs that are due. Further examples are given below.
15. Additionally, there are situations where payments or benefits are not employment income or earnings. In those cases, it is the individual that is required to report details to HMRC and pay the tax that is due.
16. This guidance sets out what happens where a third party is providing payments and benefits to an individual.

Your responsibilities as a "Third Party" provider of payments and/or benefits

17. Direct payments of cash can be taxable as earnings in the same way as salary received. How this applies in practice depends on the exact circumstances. Some examples have been provided below. If you provide something other than cash, such as a non-cash voucher or something where you directly meet the cost for an individual and the main reason for doing this is the employment, it could be a taxable benefit in kind. If the employer has no involvement in providing the benefit it will normally be the individual's responsibility to declare the benefits to HMRC for tax purposes, however you will have a liability to pay any Class 1A NICs on them.

Common situations for making payments or providing benefits

18. Cash payments to support an employee when they have started employment. If you make cash payments to an individual employed by someone else, where the payments are made because he or she is an employee, and for no other reason, they will usually be taxable under the normal PAYE rules. To determine whether this is the case it is important to think about why the payment is being made.
19. Examples of this include payments made solely for the purpose of encouraging a prospective employee to enter into a contract of employment, or supporting them to remain there. This can apply to you as a third party even where the individual is not your employee.
20. For Class 1 NICs, their employer remains responsible and so any cash payments you make must be reported to their employer at the time the payment is made (NB. there is no set format for doing so) to enable their employer to account for any Class 1 NICs that are due.

[Employer Further Guide to PAYE and NICs - CWG2](#) (HMRC website)

Other benefits

21. In other circumstances it may be appropriate for you to arrange and pay directly for something to support an employee. In these circumstances, although it is not possible to operate PAYE because something other than cash is being provided, you may still need to apply the tax and NICs rules on the benefit. Some common examples are provided below.
22. **Clothing and personal costs** – If you provide an individual with cash to purchase everyday clothing or shoes so that he or she is prepared for work you must operate PAYE and deduct tax from the payment as you would with any other cash sum. You also need to report details to the employer so that they can account for the Class 1 NICs.
23. If the clothing or personal costs are provided through vouchers which cannot be exchanged for cash, you should provide the employee with details of the value, or the cost to you, of the voucher so that they can declare this to HMRC. If you want to pay the tax on behalf of the recipient, you may be able to do this by including it in a PAYE Settlement Agreement (PSA) or by entering into a Taxed Award Scheme.
24. If Class 1 NICs are due these must be paid by their employer, but if Class 1A NICs are due you will need to account for them.
25. Full details of the above, including the schemes referred to, are available in [HMRC guidance CWG5](#) (HMRC website).

26. **Travel Cards** -If you provide an individual in employment with a weekly or other travel card to cover cost of their ordinary daily commuting from home to their normal place of work, this represents a chargeable benefit to the employee.
27. You will be liable to pay Class 1A NICs on that benefit. The employee will need to report the value of the benefit to HMRC to account for the tax. Sometimes where the employer is involved in arranging the provision of the travel card they will need to account for the Class 1A NICs.
28. Existing HMRC guidance can be found at [EIM16065.htm](https://www.gov.uk/guidance/eim16065)
29. **Welfare Counselling** – Where an employee is provided with counselling facilities this can represent a chargeable benefit, but in certain circumstances welfare counselling provided by the employer for its employees is exempt from tax and NICs. This counselling can cover areas such as alcohol and other drug dependency and particular career issues.
30. [Welfare counselling – Legal Advice](#) (HMRC website)
31. **Paying a personal bill for someone** - If an employee has, for example, a domestic utility bill paid for them by you, the same rules apply to this as they do for cash payments – i.e. is the payment made to the employee because they are an employee and for no other reason?
32. Neither you nor the employer can operate PAYE when making a payment directly to the individual's gas, telephone or other provider. The individual should be notified to inform HMRC of the amount you have paid on their behalf.
33. The amount of the bill should be reported to the employer to account for Class 1 NICs.
34. If you pay an employee's bill indirectly by giving the employee the cash to pay the bill, you should deduct tax and account for this through PAYE on the amount of the bill.
[HMRC guidance - Personal bills](#)
35. If you choose to pay all or part of an employee's tax due on that payment or benefit, then the tax you have paid must also be reported to the employer for the purposes of calculating Class 1 NICs. This is regardless of whether the tax is accounted for through a Taxed Award Scheme.

Annex 2 - Tax and National Insurance Information for Employees

Making the move back into employment – what you need to know

36. As an employee you will start to pay tax and National Insurance contributions (NICs) on your earnings. Your employer will take care of this for you under a scheme called Pay As You Earn (PAYE).

Financial support from your provider

37. If you have received financial support from your provider to help you get back into work you will normally have to pay tax on these payments.

38. Examples of financial support where tax is payable:

- Help towards the cost of a travel card or fares to work
- Help towards the cost of new clothing needed for your job
- Cash payments or paying a bill for you.

39. If you have received payments like these your provider should calculate the tax and NICs due and pay this to HMRC so that you don't have an unexpected tax bill for these payments. You can ask your provider to give you a statement showing what payments you have received and what has been deducted.

Further help and advice

40. If you are unsure about any payments you have received and how these might affect your tax and NICs you can speak to your provider or your employer about it.

41. You can also get in touch with HMRC by phone, free of charge, on 0300 200 3300 (the Income Tax helpline) or visit the HMRC website [HMRC Advice for Individuals and Employees](#).