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Introduction

These notes explain the operation of the Taxed Award Scheme arrangements (TAS). (There is a separate detailed note in the TAS information pack on the use of TAS for dealing with Class 1A NICs on non-cash incentive awards from 6 April 2000.) TAS arrangements are administered by the Inland Revenue Incentive Award Unit at Chapel Wharf Area.

What is a Taxed Award Scheme?

A Taxed Award Scheme is a voluntary arrangement to pay tax which can be used by an employer, or a third party, when providing non-cash incentive awards to employees.

Taxed Award Schemes enable providers of awards to pay the employees' tax bills on incentive awards, so that employees can receive the awards "free of tax". The providers pay all the tax due directly to the Revenue.

Providers of incentive awards are free to decide whether to pay basic rate tax on awards, or tax at the higher rate, or tax at basic rate on some awards and at higher rate on others. But a Taxed Award Scheme entered into for any particular incentive campaign must cover awards to all recipients.

Sometimes providers of awards use the services of firms which specialise in promoting and organising award schemes. But, where this is the case, only the direct providers can enter into Taxed Award Schemes. The specialist businesses cannot enter into schemes on their behalf, although they can do most of the administrative work .

How is a Tax Award Scheme Set Up?

By the provider contacting the Incentive Award Unit and signing a contract with the Inland Revenue before any incentive campaign begins. There are separate contracts for basic rate tax schemes and higher rate tax schemes. So a provider wishing to pay basic rate on some awards and higher rate on others for one incentive campaign will sign two contracts. Sample contracts are included in the information pack.

How much tax does the provider have to pay?

The amount of tax payable on an award is calculated on its taxable value. The taxable value is agreed between the Inland Revenue and the provider before the contract is signed. (In the information pack there is a copy of the Inland Revenue Statement of Practice 6/1985 which provides detailed information on how awards are valued.) The provider pays tax on the gross taxable value of the award.

What is meant by the gross taxable value?

If the provider is making the award "free of tax" the tax bill is worked out on the gross value of the award to the recipient. The gross value can be found by multiplying the value of the award by

100%

100% - (basic or higher rate)

depending upon whether the provider is accounting for tax at the basic or higher rate. This calculation takes account of income tax due on the tax paid by the provider which is strictly the liability of the recipient of an award.

Example - basic rate scheme

An employee receives an award valued at £1000
True gross value £1000 x 100% = 100000 = £1,282

100% - basic rate of 22% 78

Tax due from provider £1282 at 22% = £282

Example - higher rate scheme

An employee receives an award valued at £1000
True gross value £1000 x 100% = 100000 = £1,666

100% - higher rate of 40% 60

When does the tax have to be paid?

By 19 July after the end of the tax year in which the awards were made. (The tax year runs from 6 April in one year to 5 April in the following year.) If the tax is not paid promptly the Inland Revenue will withdraw these special arrangements.

Is a lot of record keeping necessary?

No. The administrative requirements of the scheme have been kept to a minimum but some forms need to be completed by providers who will have to keep sufficient records to do so.

Sample forms are included in the information pack.

Form P35 (TAS)

At the end of the tax year providers complete a form P35 (TAS) giving the name of the Taxed Award Scheme and the total basic or higher rate tax payable.

Form P440

The information to be shown on form P440 depends on whether a basic rate or higher rate scheme is being operated.

For basic rate schemes providers need to give details of each employee who received an award with a gross taxable value of more than £5000
and

for employees who received individual awards with a gross taxable value of £5000 or less, the total number of employees receiving the awards, the number of awards, their gross taxable values and the tax due.

For higher rate schemes only the number of awards, their total value and the total tax due are required.

Form P443 - Tax Certificate

The provider must give a certificate to everyone who gets an award under a higher rate scheme. A certificate need only be issued to an employee who gets an award under a basic rate scheme where the employee requests one. The certificate must show details of the award and the tax paid on it by the provider.

Do providers need to know how much award recipients earn?

It depends in what form the award is made. If the award is a voucher or credit arrangement which allows the recipients to receive goods or services the award is taxable no matter what else the recipient earns.

For other awards there is always a tax bill if the recipient is a director or earns £8,500 or more a year. If the provider does not know this he must assume that this is the case. Recipients of awards who are not directors and who earn less than £8,500 may still be taxable if the award can be resold.

What if too much tax is paid?

Award recipients can claim repayment from their own Tax Office where their circumstances are such that they would not have paid tax on the award or paid tax at a lower rate because, for example, of unused personal allowances or level of income.

What happens if an award is made to a company or a self-employed person?

If a provider has entered into an arrangement with the Inland Revenue about awards to employees and, exceptionally, an award is made to a company or a self-employed person, it should be excluded from the arrangement and no tax paid by the provider. The cost of the award and the name and address of the recipient should be reported on form P440.

How do Taxed Award Scheme arrangements differ from Pay As You Earn Settlement Agreements?

Employers who are making awards to their direct employees and who wish to pay the employees' tax bills will normally find it more convenient to enter into a PAYE Settlement Agreement (PSA) with their local Tax Office than to use a Taxed Award Scheme. (A PSA also takes account of NICs liabilities on benefits provided and the related tax paid.) But where such awards cannot be accommodated within a PSA, the Taxed Award Scheme arrangements are available.

Third parties making awards to employees and wanting to pay the employees' tax bills cannot use PSAs and so have to use the Taxed Award Scheme arrangements.

What about National Insurance Contributions (NICs)?

The voluntary Taxed Award Scheme arrangements are concerned with tax only. But the provision of awards and payment of tax on them by direct employers or third parties may give rise to liability to NICs. Please see the separate explanatory notes on NICs in the information pack.

These explanatory notes have been issued by

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