



PAYE Settlement Agreements (PSAs)

What is a PSA and do you need one?

A PSA is an arrangement under which the employer enters into an agreement to bear PAYE tax and Class 1B Employers NIC on specific small, non-cash, items that HMRC deem to be taxable, but you do not want to include them on P11D as a benefit in kind and give the employee a liability to tax. The tax liability is calculated on a grossed up basis and Employers Class 1B NIC is also due on the grossed up amount.

Some examples of suitable items typically included within PSAs are:

- **Employee of the month awards, or similar examples of employee recognition;**
- **Staff entertaining outside of the exemption for annual events open to all employees (up to £150 per head);**
- **Small gifts to employees, such as leaving presents;**
- **Long service awards to employees outside of the HMRC 20 year (£50 per year of service) exemption;**



The benefits of having a PSA

There are two advantages in choosing to enter into a PSA. Firstly, the employees do not suffer a tax deduction in respect of something that was either intended as a reward or relates to something that they do not recognise as a benefit. Secondly, entering into a PSA demonstrates to HMRC that the employer has reviewed its processes and recognises that a PSA is appropriate. It is an indication to HMRC of good governance and controls, so will reduce your risk rating by HMRC.

With effect from 2018/19 tax year, the process for agreeing PSAs with HMRC has changed. Instead of having to enter into a new agreement with HMRC every year, HMRC will now enter into an 'enduring' agreement. Enduring agreements will last until the PSA either needs to be amended, i.e. you want to add an item to it, or the PSA is to be cancelled altogether. There will be no need to enter into a new agreement every year.

If you would like to know more about PSAs, and how Smith Cooper can help you to manage the process, please contact us.

Get in touch

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