

## **PAYE settlement agreement**

A PAYE settlement agreement with the Taxman enables you, as an employer, to formally agree to meet the tax liability in respect of certain employee benefits / expenses.

Where you make minor, irregular or complex gifts to an employee that gives rise to a tax or NI liability, you can use a PAYE Settlement Agreement (PSA) to pay any liability on behalf of the employee. This involves grossing up the payment for tax and NI so the value received by the employee represents the net value after deductions.

This does make giving a free gift more expensive, but it can save problems later. It can in itself be used as a staff incentive, as it avoids them paying tax on the benefit.

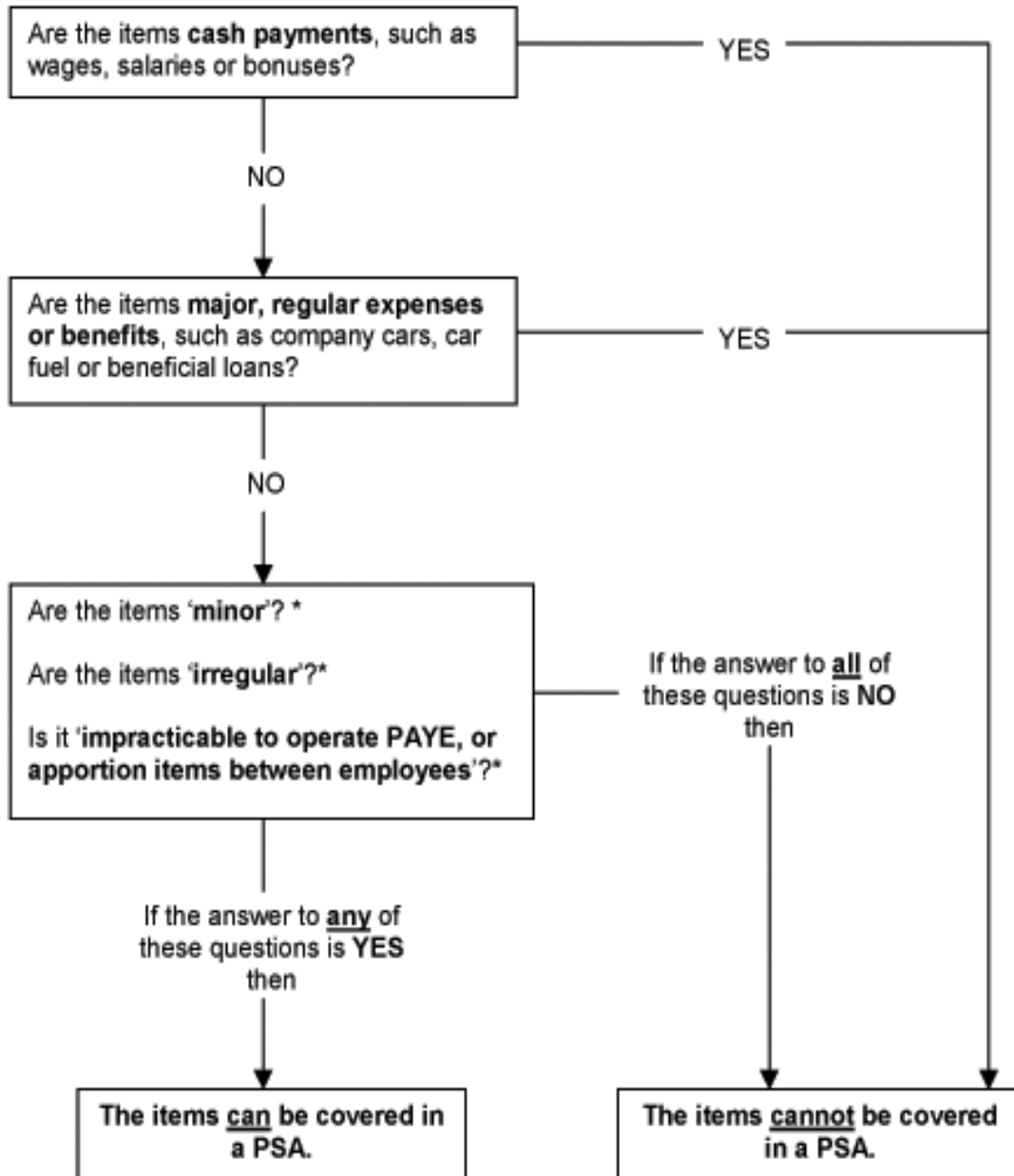
There is no standard application form, so to set up a PSA you need to write to your local inspector, describing which gifts you want to include. One important point is if the item is subject to tax or NI at the time of making the gift, the agreement must be in place before the payment is made. In all other cases, they can be agreed after the event.

The tax due must be paid by 19 October following the year to which the PSA relates. A PSA has to be renewed on an annual basis.

If you would like to discuss your employee benefits or if you think a PAYE Settlement Agreement can be of help to your business, please contact us at [enquiries@boothparkes.co.uk](mailto:enquiries@boothparkes.co.uk)

The following flowchart will help you decide which items can be included in a PSA.

## Flowchart for deciding which items can be included in a PSA



\* The terms 'minor', 'irregular' and 'impracticable to operate PAYE' are explained in Statement of Practice SP5/96.

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