

PAYE settlement agreements – What are they good for?

In a series of short articles we consider the employment tax challenges 2025 will present to employers. In this article we look at PAYE settlement agreements (PSA), what are they good for and why employers **should consider using them**.

Employers commonly use PSAs to help meet the income tax and National Insurance liabilities which would otherwise fall onto the employee. If you think about it organizing a Christmas Party and then passing on the 'tax bill' to the employees who attended will not be well received.

What is a PSA?

A PSA is an agreement, or contract between the employer and HMRC where the benefit, or taxable expense falls within one of following categories:

- ◆ The benefit is minor in nature; or
- ◆ Irregular in nature; or
- ◆ Impractical to allocate a value of the benefit to an individual employee or difficult to correctly operate the PAYE regulations.

The following are common examples of where a PSAs are used:

- ◆ Staff entertaining
- ◆ Long service awards (which are not otherwise exempt)
- ◆ Trivial benefits over £50 (gifts)
- ◆ Staff incentive awards
- ◆ Taxable relocation costs
- ◆ Health care costs (medicash or dental plans)

However, a PSA cannot include cash payments, such as bonuses or major benefits in kind, such as a company car.

Whilst the deadline for applying for a PSA is 6 July following the end of the tax year in which the costs were incurred. HMRC does not accept that a PSA can be applied retrospectively and so it is necessary also look ahead at what costs might be incurred in the future, for example are you going to introduce a staff incentive award scheme?

How Haysmac can help?

If you do not already have a PSA but are providing, for example, staff entertaining then we can help you determine whether you need one.

If you already have a PSA in place, we can review whether you are making best use of the arrangement. In particular, whether you are making best use of any exemptions or reliefs available and paying the right amount of tax and NIC.

We can prepare the calculations and help to meet your filing deadlines and avoid any interest and penalty charges.

For further information, please contact a member of the Employment Taxes team



Nick Bustin
Director
T +44 20 7969 5578
E nbustin@haysmac.com

HaysMac[★]



10 Queen Street Place
London EC4R 1AG

T 020 7969 5500
E marketing@haysmac.com

haysmac.com

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