

New HMRC guidance for VAT on Salary Sacrifice schemes



Following a ruling by the European Courts on the AstraZeneca case, HMRC has now issued guidance regarding VAT on employee benefits, (the link below gives the full outcome of the ruling). Although the court ruling was in respect of high-street vouchers, there are also implications for other salary sacrifice schemes like childcare vouchers and cycle to work schemes.

Childcare Vouchers

Childcare vouchers themselves are not directly affected by the judgment as they are not subject to VAT. VAT is payable on the childcare voucher administrative fees and employers have, to date, been able to recover VAT on these fees as a general business overhead. The new guidance suggests that because the fees are directly attributable to a VAT exempt sale, with effect from 1st January 2012, employers will no longer be able to reclaim this VAT.

However, several childcare voucher providers have concerns about this HMRC decision and a number of questions remain unanswered, so further clarification has been requested. Although in the meantime it is worth pointing out that employers will still save the 13.8% Employer National Insurance Contribution on the salary sacrificed to purchase childcare vouchers. NorthgateArinso can source childcare vouchers with an administration fee of between only 1% - 2.25%, so the VAT charged is a very small percentage on the total saving, therefore, these new changes will have a minimal impact on the overall value and success of a childcare voucher scheme.

Cycle to Work scheme

On a Cycle to Work scheme, employers who were VAT registered were able to recover VAT when a bicycle was purchased, and then pass this onto the employee as a valuable saving. With effect from 1st January 2012, employers, who are VAT registered, are required to pay VAT on the amount of salary sacrificed so, whilst the VAT can still be recovered when a bicycle is purchased, subject to the normal rules for claiming VAT, this will be used to offset the output tax rather than passing it onto employees.

Despite this change the Cycle to Work Scheme remains a valid and worthwhile benefit for both employers and employees, with employees still being able to save up to 31% or 41% on the retail cost of a bicycle, via tax and Employee National Insurance Contribution savings, depending on their tax status.

For more information visit
www.hmrc.gov.uk/briefs/vat/brief2811.htm.

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