CHARTERED
ACCOUNTANTS



KEY GUIDE

Making the most of fringe benefits

Introduction

MORE THAN JUST A SALARY

Although the main rate of employee national insurance contributions (NICs) is just 8%, fringe benefits still have a definite tax advantage when compared to conventional salary. Even if there is not much, if anything, in the way of income tax saving, directors and employees can avoid NICs. Certain tax-advantaged fringe benefits will also mean no, or little, NICs for the employer, with these types of benefit particularly suited to a salary sacrifice arrangement. Such arrangements are now more beneficial than ever with the rates of NICs payable by employers set at 15%.

However, at the November 2025 Budget it was announced that the tax advantages of salary sacrifice arrangements involving employer pension contributions are to be curtailed, although the change will not happen until April 2029. The change will remove the NIC exemption for salary sacrificed pension contributions above £2,000 per year.

Private medical and dental cover is by far the most popular taxable benefit, with company cars second. The number of directors and employees with company cars has decreased in recent years, but figures for 2022/23 and 2023/24 show a marked increase. Although the company car benefit can easily be very tax inefficient, the latest HMRC figures show a major shift towards lower emission vehicles, especially those with zero-emissions. Zero and ultra-low emission company cars now account for over 60% of the total.

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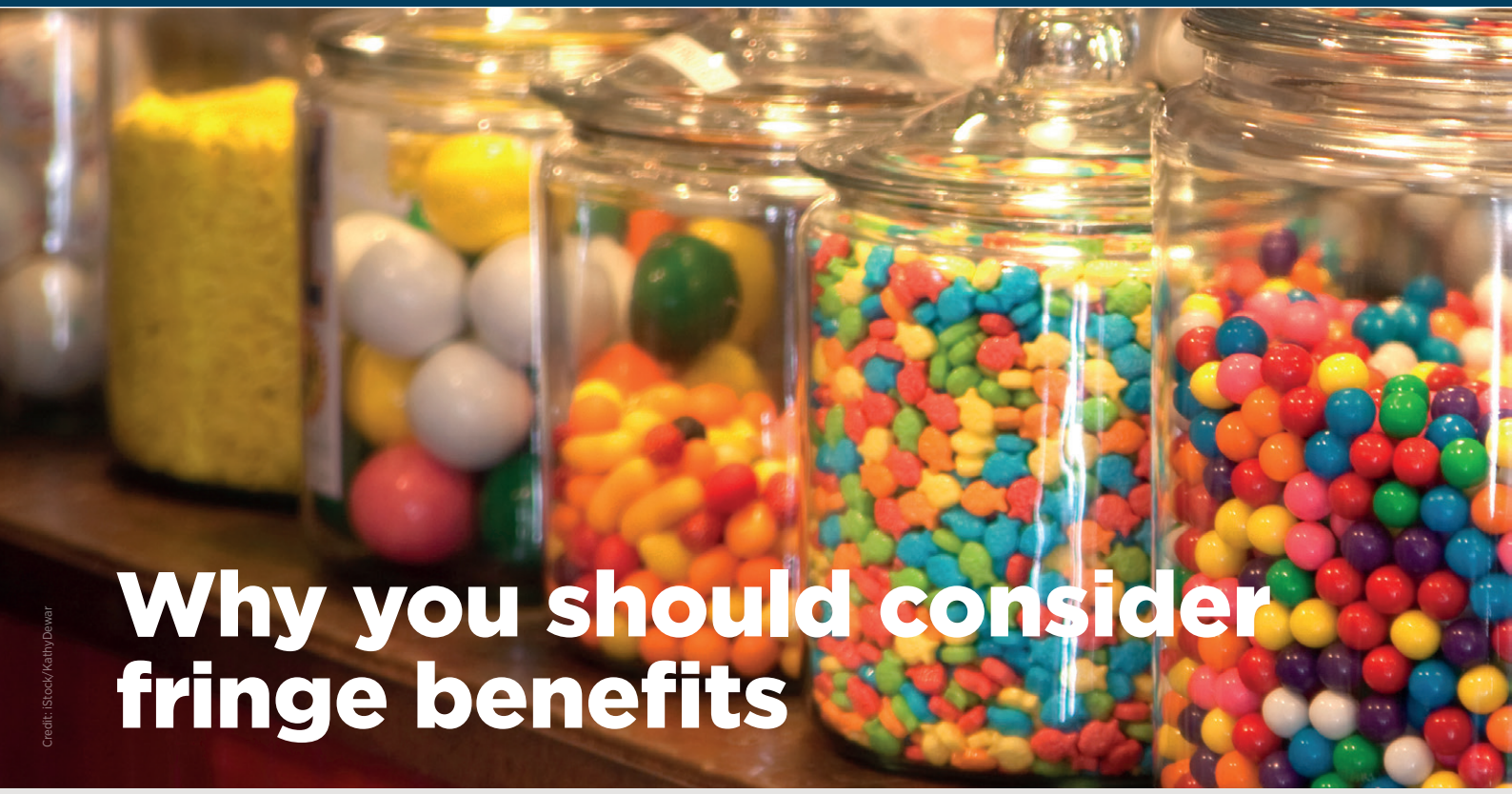
How contributions from payroll can reduce employer and employee tax bills



HOW TO REPORT YOUR BENEFITS

How to make sure your organisation pays the right amount of tax and national insurance contributions

This publication is for general information and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. This publication represents our understanding of law and HM Revenue & Customs practice as at 10 April 2026.



Why you should consider fringe benefits

Credit: iStock/KathyDewar

While pay rises are normally popular, they aren't the only way to reward employees and directors. A fringe benefit is essentially any type of non-monetary compensation, and can be anything from pension provision to medical cover, a company car or the use of a company yacht.

As a director, there might be a tax advantage to taking a benefit rather than the additional income needed to purchase the benefit yourself. As an employer, you will be looking to use fringe benefits to attract, reward and retain employees. Benefits can be provided on top of normal salaries, or they may sometimes be provided as part of a salary sacrifice arrangement.

Some fringe benefits are completely free of tax, whilst most benefits are free of NICs as far as employees are concerned. As an employer, you may well be able to acquire some benefits, such as medical cover, at a discount on what an employee would have to pay for the benefit personally.

WELLBEING BENEFITS

Benefit packages increasingly include a range of wellbeing benefits focused on healthcare, childcare, eldercare and green issues. There can be a fine line between those benefits which are tax-free and those which are taxable.

Healthcare

Medical insurance, dental cover and medical treatment will normally be taxable. Insurance cover can extend to family members, with a group policy often used. If the insurer does not allocate the cost of a group policy between employees, then it is apportioned on a reasonable basis.

Your employees can make use of a company gym without any tax implications, whether it is provided free or at a subsidised price. You can also provide healthy food in a company canteen. However, if you pay for a fitness club membership or provide a dining card there is a taxable benefit. You can provide tax-free annual health checks and eye tests (where an employee is required to use a computer).

Planning point

There is an annual exemption of up to £500 where you pay for medical treatment to help an employee return to work following sickness or injury.

Childcare and eldercare

You can provide your employees with a nursery or child-minding facilities on a tax-free basis but, except for the limited childcare voucher exemption (which is no longer open to new entrants), any other childcare support you provide will be taxable. The same applies if you provide financial support to employees that care for elderly parents (eldercare).

However, you can assist your employees with both childcare and eldercare by offering flexible working and working from home – neither of which will result in any benefit implications.

Planning point

You can pay a tax-free amount of up to £6 a week towards the additional costs of an employee who is required to work at home. This could be because they live far away from your office, or because you do not have an office.

Dealing with stress
Flexible working can also help employees deal with stress, especially if they have lengthy commutes or additional responsibilities. It also helps to restrict the amount of overtime.

Many companies now also offer counselling services for employees. There are no tax implications provided the counselling is restricted to welfare issues, such as bereavement, ill health or stress, problems at work, sexual abuse or personal relationship difficulties. The exemption extends to any related medical treatment, such as cognitive behavioural therapy.

Green issues
Cycling to work can be encouraged by providing employees with tax-free bicycles and safety equipment on loan, with the employee having the opportunity to purchase the bicycle at a fair market value following the end of the loan period. Bicycles and safety equipment are often provided under a salary sacrifice arrangement (see pages 6-7 for how this works).

You can also arrange for employees to have cheap or free travel on public bus services, or even go as far as providing a free work bus. However, the provision of a transport pass that covers a wide area (such as the London Oyster card) will not be tax free.

Planning point
If possible, make sure that the conditions for tax-free status for wellbeing benefits are met. The requirements can be quite strict, with the benefit normally having to be available to your entire workforce.

Wearable technology
Wearable technology, such as fitness trackers, smart watches and sport watches, can be used to help employees make healthy lifestyle choices, as well as improving their physical and mental wellbeing. However, the provision of such devices will generally be classed as a taxable benefit.

Retirement
Within set limits, pension contributions made on behalf of employees are free of tax and NICs. It does not matter whether contributions are to a company scheme or to a personal pension scheme. Pension contributions are also often provided under a salary sacrifice arrangement. The tax advantages of ordinary (non-salary sacrificed) employer pension contributions will continue after April 2029. The new tax restrictions are only going to apply where pension contributions are made under a salary sacrifice arrangement.

CAR BENEFITS
As mentioned above, this traditional company perk can easily be very tax inefficient. What is often overlooked is that a car's age and cost are irrelevant when it comes to calculating the taxable benefit, as is the amount of business mileage. The tax cost of having a zero or ultra-low emission company car is currently significantly less than it is for a car with higher emissions, although changes already announced for the tax years 2028/29 and 2029/30 will remove some of the advantage. The changes will particularly impact ultra-low emission company cars.

- The taxable benefit for a company car is calculated as a percentage of the car's list price, with the percentage determined by the level of carbon dioxide (CO_2) emissions. The list price of an electric or hybrid car always includes the cost of the car's battery.
- The use of list price means that any discount on the purchase price is ignored, and that the same value continues to be used even when a car is several years old.
- It makes no difference whether a car is bought outright or leased.
- The car benefit covers all of the costs associated with having a car such as insurance and repairs, but not fuel for private motoring.

When it comes to CO_2 emissions, plug-in hybrid variants generally have lower rates compared to petrol and diesel variants. For 2026/27, electric-only powered cars have a 4% benefit-in-kind rate, and they can also result in lower running costs. Be warned, however, that this percentage will reach a much less favourable 9% by 2029/30.



For hybrid-electric cars with CO_2 emissions between 1 and 50 grams per kilometre, the electric range of a car is relevant in determining the car benefit percentage, as follows:

Electric range	Percentage
130 miles or more	4%
70 to 129 miles	7%
40 to 69 miles	10%
30 to 39 miles	14%
Less than 30 miles	16%

The tax percentage is then:

- For a car with a CO_2 emission rate of between 51 and 54 grams per kilometre, the percentage is 17%.
- The percentage charge then rises in 1% steps, subject to a maximum of 37% (note that the percentage charge of 21% covers a range of 10 g/km).

The percentages for 2026/27 for petrol-powered cars with CO_2 emissions of 51 g/km or more are as follows:

CO_2 in g/km	Percentage (%)	CO_2 in g/km	Percentage (%)
51 to 54	17%	110 to 114	28%
55 to 59	18%	115 to 119	29%
60 to 64	19%	120 to 124	30%
65 to 69	20%	125 to 129	31%
70 to 79	21%	130 to 134	32%
80 to 84	22%	135 to 139	33%
85 to 89	23%	140 to 144	34%
90 to 94	24%	145 to 149	35%
95 to 99	25%	150 to 154	36%
100 to 104	26%	155 and over	37%
105 to 109	27%		

A surcharge of 4% is applied to diesel cars (but not diesel hybrids) unless a diesel car is certified to the Real Driving Emissions 2 (RDE2) standard, subject to the maximum percentage of 37%. You can check whether a diesel car meets the standard online at https://vehicleenquiry.service.gov.uk/

From 2028/29, the charge for hybrid-electric cars with CO_2 emissions of 1 to 50 g/km will no longer be based on their electric range. There will instead be a single percentage charge of 18% (increasing to 19% for 2029/30). This means that on 6 April 2028, the drivers of the most efficient hybrids will face a very large overnight percentage increase.

The maximum percentage charge of 37% will go up to 38% for 2028/29, and to 39% for 2029/30.

Fuel

Where any fuel is provided for private motoring, there will be an extra taxable benefit. This is calculated using the same percentage as for car benefits, but based on a fixed value, which for 2026/27 is £29,200. Unlike other benefits, where an employee's contributions automatically reduce the amount of benefit, there is no reduction for partial contributions towards the cost of private fuel. If the entire cost is reimbursed, there will be no fuel benefit.

There is no fuel benefit for all-electric company cars because electricity is not classed as a fuel. There is also no benefit-in-kind where an employer provides a charging point for employees to recharge their electric or hybrid cars either at home or at work.

Planning point

Paying for all private fuel, especially if quantities are low or if the car has high CO_2 emissions, will eliminate a fuel benefit.

Mileage rates

HMRC publishes a set of advisory fuel rates which can be used to reimburse employees for business travel in their company cars without giving rise to any tax liabilities. These rates are updated on a quarterly basis.

CHEAP LOANS

You might make cheap or interest-free loans to employees, perhaps for them to purchase a season travel ticket or to



Credit: iStock/peangdao

buy their own car. The good news is that tax is not charged where the value of loans provided to an employee does not exceed £10,000 at any point during the tax year. However, if the £10,000 limit is exceeded by just a few pounds, then this exemption does not apply.

Where loans are taxable, the benefit is calculated as the difference between the amount of interest at HMRC's official rate and the amount of interest actually paid. The official rate of interest is set in advance of the tax year, but is then reviewed quarterly throughout the year. The initial rate set for 2026/27 is 3.75%.

EXAMPLE
Cheap loan benefit

On 6 April 2026, Jones Ltd made a £15,000 loan (with an interest rate of 2%) to an employee who wanted to buy a car, with £5,000 being repaid by 5 April 2027. The average amount outstanding throughout 2026/27 is £12,500, so (assuming the official rate is 3.75% throughout 2026/27) the taxable benefit is £219 (£12,500 x 1.75% (3.75% – 2%)). The benefit for 2026/27 could have been avoided if the interest rate charged had been set at 3.75%, although in any case there will be no benefit for 2027/28 given the £10,000 limit.

Be careful of relying on the £10,000 limit if you are also a company shareholder. In this case, a loan or an overdrawn director's current account could result in a tax charge for your company, with this charge applying whatever the amount of loan.

OTHER EXEMPT BENEFITS

Mobile phones

The most common benefit not already mentioned is the provision of a mobile phone for private use. You and each employee are permitted one tax-free mobile phone, but make sure that it is the company that owns the phone and takes out the contract with the telecoms company. A second phone will be taxable, as is any other device such as a tablet or laptop, even if they have telephone functionality. However, mobile phones, tablets or laptops used solely for business, or with insignificant private use, are always exempt.

Further exempt benefits

- Employees can be provided with a parking space for a car, motorcycle or bicycle.
- You can reimburse up to £8,000 of a new employee's moving costs if they have to move house to take up employment with your company.
- Employees can be provided with up to £500 of pension advice each year.
- There is also an exemption (with certain exceptions) for trivial benefits, such as employee celebrations, which do not cost more than £50 per employee.



Planning point

Each year you can spend up to £150 per person for a Christmas party or similar annual function (subject of course to social distancing requirements) without any tax implications. Or you can throw two or more events provided the total per person cost does not exceed £150.

TAX TREATMENT

All employees (with certain exceptions) are treated the same when it comes to the taxation of fringe benefits.

Employees are generally taxed on what it costs to provide the benefit. If medical insurance costs £1,250 a year per employee, then that is the figure each employee will be taxed on. If you or an employee simply has the use of an asset, such as a television, then the taxable benefit is calculated as 20% of the asset's value when first provided. Of course, the asset might be rented, and in that case the rental figure will be used if higher. However, as seen above, there are special computational rules for certain fringe benefits, such as company cars, fuel for private use and cheap loans.

The amount of taxable benefit is proportionately reduced where a benefit is only available for part of a tax year, and any amounts paid towards the benefit (by you, as a director or an employee) will reduce the taxable figure.

Unless tax free, benefits are subject to income tax at an employee's marginal rate (20%, 40% or 45% for the UK excluding Scotland, with rates ranging from 19% to 48% for Scottish taxpayers), with tax normally collected under Pay As You Earn (PAYE).

Although there are generally no employee NICs on fringe benefits, you, as the employer, will have to pay Class 1A NIC at the rate of 15% on all taxable benefits.

The costs of providing employee benefits will usually be deductible in calculating your taxable profits, either as an expense or as capital allowances if you purchase something such as a company car.

SALARY SACRIFICE

The tax and NIC advantages of many salary sacrifice arrangements have been removed. However, this change does not currently apply to pension contributions, childcare, low-emission cars or health-related benefits such as cycling to work.

EXAMPLE
Salary sacrifice using pension contributions

Sally, one of your employees, has a gross salary of £30,000 and is personally making pension contributions of £2,000. Although income tax is only paid on £28,000 (£30,000 - £2,000), NICs for both you and Sally are based on the full £30,000. Under a salary sacrifice arrangement, Sally could give up £2,000 of her salary, with you then making the £2,000 pension contributions. The tax position is unchanged, but NICs would then be calculated on the lower salary of £28,000 – particularly beneficial here because Sally saves NICs at the rate of 8% and you save NICs at the rate of 15%.

Salary sacrifice is where an employee gives up a portion of their salary in return for a fringe benefit. The arrangement obviously works best where the benefit is tax free, such as pension contributions. There will be little or no additional cost for you in providing such benefits under a salary sacrifice arrangement, but there are tax advantages all round.

Being able to take 25% of the pension fund tax-free from a and you save NICs at the rate of 15%. ge 55 (increasing to 57 from 6 April 2028), with total withdrawal flexibility for the remainder of the fund, simply enhances the arrangement. The principle works equally well for you, as a director, because pension contributions can be paid rather than drawing profits as remuneration or dividends.

A company car salary sacrifice arrangement also works well for full electric and certain hybrids, and such arrangements are becoming increasingly popular.

Salary sacrifice is particularly beneficial for an employee who is paying income tax at an effective rate of 60% due to being caught in the personal allowance trap (where income falls between £100,000 and £125,140). Even after the new restrictions come in from April 2029, salary sacrificed pension contributions above £2,000 will still reduce this 60% liability; it is only the NIC exemption that is being removed.

HOMEWORKING

With many employees now working either part-time or full-time from home, certain benefits may no longer be worth having. For example:

- Employees may not be able to make much use of fitness club memberships if the gym is located near a workplace and they are partially or wholly working from home.
- Company cars might be seeing little use but pausing or ceasing the benefit is not easy. For example, just cancelling the car's insurance will make no difference. To pause or cease a company car benefit, the car must be unavailable for a period of at least 30 days, and the employee must not have access to the car.

As long as there is insignificant private use, laptops can be provided tax-free, along with broadband (but not if broadband was already installed).

HOW YOU SHOULD REPORT BENEFITS

Form P11D is used to report details of benefits to HMRC each tax year. Unless benefits have been payrolled, you will have to complete a form P11D for each employee that you provide with benefits, although most payroll software will include P11D completion together with electronic submission to HMRC.

With payrolling, taxable benefits are put through your payroll on a current basis in the same way as cash earnings. Any benefits which have been payrolled do not need to be included on P11Ds. It is now too late, however, to register with HMRC to payroll benefits on a voluntary basis for 2026/27.

Payrolling of most benefits (cheap or interest-free loans being one of the few exceptions) will be mandatory from 6 April 2027, although the new mandatory system will be different to the current voluntary one.

In advance of payrolling becoming mandatory for most benefits from 6 April 2027, employers need to ensure their payroll processes are robust enough to handle real-time reporting of taxable benefits.



HOW WE CAN HELP

We can advise you how different fringe benefit packages will impact on both you and your employees.

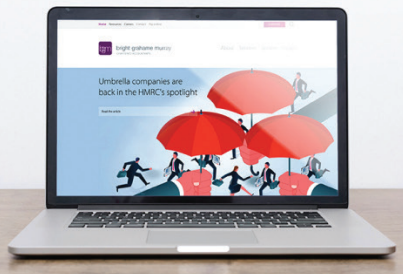
If we are not already looking after your P11D reporting, then we are more than happy to take this on or to provide guidance if you continue to do so yourself. We can also help when payrolling of taxable benefits becomes mandatory.

We can keep you up to date with the frequent changes to the fringe benefit taxation rules.

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Like to find out more?

To find out more about how we can help with any of the points raised in this publication you can scan the QR code or visit our website at **www.bgm.co.uk**



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