



# BALANCED FINANCE

## 2020/21 Tax Year - Key Rates



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Women in Business

# Contents

- ▶ Employee benchmark subsistence rates **[P3]**
- ▶ Car and van mileage allowances **[P4]**
- ▶ Cars - company cars and vans **[P5]**
- ▶ Charitable gifts **[P6]**
- ▶ National Insurance **[P7 - P8]**
- ▶ National minimum wage and national living wage rates **[P9]**
- ▶ Sick pay rates **[P9]**
- ▶ Value added tax (VAT) **[P10]**

## Employee benchmark subsistence rates

On 6 April 2009 HMRC introduced a scheme that allowed payment of tax-free subsistence to employees travelling on business. To use the scheme you had to notify HMRC first, but since 6 April 2016 that is not necessary. From this date a system of benchmark rates came in force which are set out in regulations. The rates are set as follows:

Minimum journey time	Maximum amount of meal allowance
5 hours	£5.00
10 hours	£10.00
15 hours	£25.00

Where an allowance of £5 or £10 is paid and the qualifying journey lasts beyond 8.00pm a supplementary rate of £10 can be paid. A maximum of two allowances can be paid for each day. HMRC can agree higher flat-rate subsistence payments with employers on request and evidence that they are reasonable and required taking account of the employees' duties.

### Incidental overnight expenses

Employers can pay employees a tax and NI-free amount to cover personal costs they incur when staying overnight on a business trip, e.g. hotel charges for newspapers or laundry. The maximum payments are:

- £5 per night for travel within the UK
- £10 per night for travel outside of the UK.

# Car and van mileage allowances

## HMRC approved mileage rates from 6 April 2011

- HMRC approved mileage allowance payments (AMAPs) can be paid tax and NI free to employees using their own cars, motorcycles or bicycles for business as shown in the table below.

Vehicle type	Amount per mile
Cars and vans, mileage up to 10,000	45p
Cars and vans, mileage over 10,000 (for NI the rate is 45p for all business miles)	25p
Motorcycles, all mileage	24p
Bicycles, all mileage	20p
Passenger (car or van, per passenger), all mileage	5p

## Advisory fuel rates

- Where an employee pays for all the fuel when driving a company car, the employer may reimburse them tax free for the cost of business mileage travelled at the rates shown in the table below. Similarly, where an employer has paid for all the fuel for a company car, the employee can avoid being subjected to a fuel scale charge (see above) by reimbursing the employer using the same rates.
- The rates below apply from 1 March 2020, but may be amended at any time, but usually quarterly, by HMRC to reflect shifting fuel prices. The previous quarter's figure are shown in brackets.

Engine size	Petrol	LPG
Up to 1,400cc	12p (12p)	8p (8p)
1,401 - 2,000cc	14p (14p)	10p (9p)
Over 2,000cc	20p (21p)	14p (14p)

Engine size	Diesel	Electric
Up to 1,600cc	9p (9p)	
1,601 - 2,000cc	11p (11p)	
Over 2,000cc	13p (14p)	
N/A		4p

## Cars - company cars and vans

- Employees and directors are liable to income tax on a benefit in kind if they have the use of a company car or van made available to them by their employer. For cars, the taxable amount of benefit is a percentage of their original list price. The percentage is determined by the car's CO<sub>2</sub> emissions. For vans there is a fixed charge regardless of CO<sub>2</sub> emission.
- When calculating the car benefit the price used is the full list price (inclusive of VAT and delivery charges) at the time the car is first registered.
- The price takes into account optional accessories provided with the car and the list price of accessories costing £100 or more added to the car. The cost of in-car mobile telephones is ignored for this purpose as are the costs of certain security enhancements.
- The cost of accessories designed for the disabled can be left out of the price used. If the disabled driver has to drive an automatic car, the CO<sub>2</sub> figure is that of the equivalent manual car.
- Where an employer provides the employee or director with fuel for personal journeys a benefit in kind arises. This is calculated by applying the percentage applicable to the car to a fixed amount: £24,500 for 2020/21.
- Employer provided electricity for electric or hybrid cars is not a taxable benefit

## Employer-provided vans

- Where an employee takes their van home but does not make private use of the vehicle, they are exempt from any tax charge. There is a flat rate benefit in kind of £3,490 for 2020/21 or any private use. The fuel scale charge for a van with significant private use is a flat £666 for 2020/21. The fuel benefit can be reduced proportionately where it is not available for part of a year.
- Where an employer provides an employee or director with use of a van for personal journeys, other than for home to work, a benefit in kind arises. Where fuel for personal journeys is also provided a separate benefit in kind arises.
- Where a van produce no CO<sub>2</sub> emissions the benefit in kind is reduced to zero. However the reduction is being phased out over several years with effect from 6 April 2015.

# Charitable gifts

There are several ways an individual can claim tax relief on gifts to charity:

- **Gift aid donations** - there's no limit to the tax relief that can be claimed for donations of cash.
- **Deeds of covenant** - the same rules apply as for the gift aid scheme.
- **Payroll giving** - employees have charitable donations taken directly from their pay before calculating PAYE. They are limited only by the amount of earnings they have.
- **Non-cash gifts** - this covers anything from shares to freehold property - individuals can obtain income tax relief for the value of such gifts (for capital gains tax the gift is treated as no gain or loss if nothing has been received from the charity).
- The individual will only get a tax benefit if they pay tax at higher rates.

## Gift aid payments - terms and conditions of gift aid relief

- Individuals who give to UK charities and community amateur sports clubs in EU countries receive tax relief by deducting basic income tax (20%) from their payments.
- Companies must make gifts without the deduction of tax. They receive relief as a reduction in their corporation tax bill.
- Tax relief is also available to individuals and companies for gifts of real property, shares and securities to charities.
- Tax relief for gift aid payments can be claimed for the year prior to that in which the gift is made as long as the "carry back" is claimed in the self-assessment tax return for the earlier of the two years concerned (provided it is submitted before the filing deadline).
- Tax relief is lost where the donor receives a benefit from the charity etc. exceeding the following financial values: (effective from April 2019):

Total donation made	Maximum total value of permitted benefits
£0-£100	25% of total donations
£101+	£25 + 5% of the excess over £100*

\*Subject to a limit of £2,500.

# National Insurance

## Contribution classes

- **Class 1** - payable on employment earnings. Class 1 primary contributions are payable by the employee on their earnings at the rates shown in the table below, and Class 1 secondary are paid by the employer. The contributions are payable and accountable for under the PAYE system.
- **Class 1A** - payable by employers only on the value of benefits in kind provided to its employees. The rate is the same as the main Class 1 (secondary) rate. Contributions are payable by 19 July following the end of the tax year to which they relate.
- **Class 1B** - effectively the same as Class 1A contributions, and payable at the same rate as secondary contributions except that they apply where the employer pays the tax liability usually due from an employee on benefits in kind. Class 1B NI is payable by 19 October after the tax year. Note that you can not apply for a PAYE Settlement Agreement (PSA) for 2019/20 later than 5 July 2020. As a PSA has to be approved by HMRC by that date, the deadline for application is in practice somewhat earlier.
- **Class 2** - payable by the self-employed at the flat rate shown in the table below. If their profit is below the “small earnings exception” limit, an exception from paying Class 2 can be applied for.
- **Class 3** - voluntary contributions payable at a flat rate as shown in the table below. Contributions of this class can be paid by individuals who wish to top up their contribution record.
- **Class 4** - payable by the self-employed at the rates shown in the table below. The amount payable is profit related. Contributions at the full rate don't apply to profits in excess of the “upper profits limit”. The rate of contribution is 2% of all profits above this limit.

## Notes on Class 1 contributions:

- The full rate of primary contributions is capped by an “upper earnings limit” (see the table below) above which the rate of contribution is reduced to 2% of earnings. Secondary contributions are due at the full rate on all earnings.
- Contracted-out rates - until 6 April 2016 the rate of Class 1 contributions was reduced if the employer operates a contracted-out pension scheme. But where an employee contracted out of the state pension scheme through their own personal pension arrangement, the reduction in Class 1 was until 5 April 2012 achieved by a rebate of contributions from HMRC paid directly into the pension fund of the individual concerned. In this event the full rate Class 1 contributions continue to be due.
- Since 6 April 2014 almost every business, charity and CASC has been able to deduct employment allowance from their (annual) employers’ NI liability. From 6 April 2016 the allowance was increased to £3,000 and to £4,000 from 6 April 2020. There are some exceptions, e.g. companies with a single director and no other employees (from 6 April 2016), employers engaging personnel for personal, household or domestic work, employers already claiming EA through a connected company or charity, a public authority etc.

Description	2020/21
Lower earnings limit, primary Class 1 (per week)	£120
Upper earnings limit, primary Class 1 (per week)	£962
Primary threshold (per week)	£183
Secondary threshold (per week)	£169
Upper secondary threshold for under 21s (per week)	£962
Apprentice upper secondary threshold for under 25s	£962
Employees up to the primary threshold and employers up to the secondary threshold.	0%
Employees’ Class 1 rate between primary threshold and upper earnings limit	12%
Employees’ Class 1 rate above upper earnings limit	2%
Married women’s reduced rate between primary threshold and upper earnings limit	5.85%
Married women’s rate above upper earnings limit	2%
Employer’s secondary Class 1 rate above secondary threshold	13.8%
Class 2 rate (per week)	£3.05
Class 2 small earnings exception (per year)	£6,475
Special Class 2 rate for share fishermen (per week)	TBA
Special Class 2 rate for volunteer development workers (per week)	TBA
Class 3 rate (per week)	£15.30
Class 4 lower profits limit (per year)	£9,500
Class 4 upper profits limit (per year)	£50,000
Class 4 rate between lower profits limit and upper profits limit	9%
Class 4 rate above upper profits limit	2%

# National minimum wage and national living wage rates

Type of worker	From 1 April 2020
Workers aged 25 and over	£8.72 per hour
Workers aged 21-24 inclusive	£8.20 per hour
Workers aged 18-20 inclusive	£6.45 per hour
Workers aged 16 and 17, if they have ceased to be of compulsory school age (which happens on the last Friday in June of the school year in which their 16th birthday occurs in England and Wales)	£4.55 per hour
Apprentices aged under 19, or aged 19 and over but in the first twelve months of their apprenticeship	£4.15 per hour
Accommodation offset (the maximum deduction per day from the NMW where the employer provides accommodation)	£8.20 per day

## Sick pay rates

Type of payment	Main qualifying condition	2020/21	Maximum period
Statutory sick pay (SSP)	Employee's normal average weekly earnings to be equal to or more than LEL to qualify for SSP	£95.85 per week	28 weeks in any three-year period
Lower earnings limit (LEL) for National Insurance contributions		£120 per week	N/A

# Value added tax (VAT)

Value added tax (VAT) is paid by the purchaser on all goods and services that aren't exempt. It's also payable on goods and services imported into the UK by the purchaser. The seller of the goods or services is responsible for calculating and collecting (charging) the VAT from their customers.

Type of supply	From 1 April 2018
Standard-rated	20%
Reduced rate	5%
Zero-rated	0%

**Note.** Apart from the rates shown in the table above, some goods and services are exempt from VAT, e.g. the supply of health services by a registered doctor or other health professional, and some are outside the scope of VAT, e.g. donations to charity (provided nothing is received in return).

## Registration and deregistration

The table below sets out the VAT registration and deregistration limits.

Registration criteria	Limit from 1 April 2017	Compulsory	Time allowed to notify HMRC
Turnover during last twelve months exceeding	£85,000	Yes	30 days
Turnover expected to exceed this amount within next 30 days	£85,000	Yes	30 days
Acquire goods in calendar year beginning 1 January exceeding this value from another EU member state (or expect to within next 30 days)	£85,000	Yes	30 days
Turnover in the course of business exceeds	£1	No	N/A
Intending to trade	None	No	N/A
Deregistration criteria:			
Turnover during last twelve months less than	£83,000	No	30 days