

# Taxation implications for company paid healthcare



# How Simplyhealth's products are taxed

The following taxes affect companies who buy healthcare cover for their employees (rates quoted are correct as at April 2013):

## **Insurance Premium Tax (IPT)**

IPT is included in insurance contracts and is charged at 6% of the net premium. IPT cannot be reclaimed.

## **National Insurance Contributions (NIC)**

Employers are charged Class 1A NIC at 13.8% on the full value of taxable benefits, or Benefits in Kind (BIK), provided to their employees. Class 1A NIC will not usually be charged where employees' earnings, including BIK, are less than £8,500 per annum.

## **Income Tax**

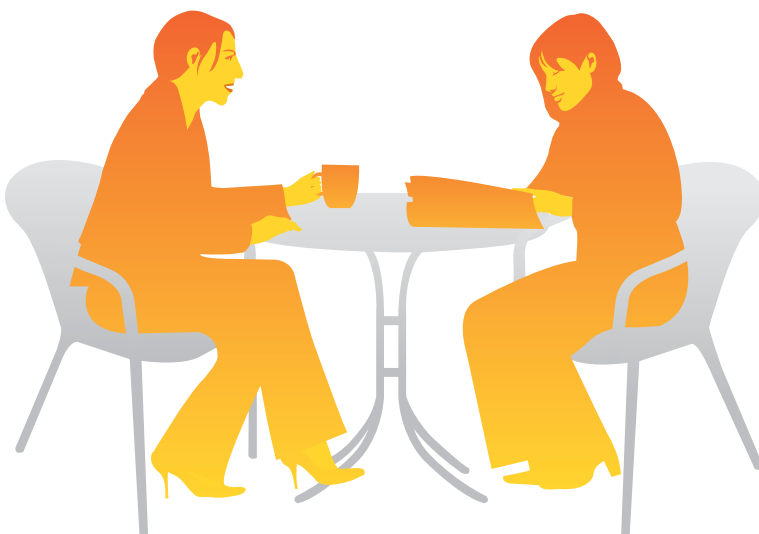
Employees receiving company paid healthcare cover will pay tax on the BIK value, which is the total cost to the employer less any amounts repaid by the employee. Tax is charged at the employee's highest marginal tax rate (i.e. 20%, 40% or 45%), which is determined by total earnings including benefits.

## **Corporation Tax (CT)**

Companies pay CT on their profits at a main rate of 23% (small profits rate 20%). The costs of providing employee benefits are allowed as deductions from profit for CT purposes, and so reduce the amount of CT payable.

## **Value Added Tax (VAT)**

VAT is charged at 20% on non-insurance Administration Services; many companies are able to reclaim the VAT they pay through their VAT return.



Different taxes may apply depending on the type of healthcare cover.

<b>Simplyhealth Healthcare Plan Option</b>	<b>Private Medical Insurance (PMI)</b>  A flexible way for companies to help their employees at times of ill health	<b>Health Cash Plan</b>  A low cost health benefit that helps employees with the cost of their everyday healthcare
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**Taxes:**

<b>Valued Added Tax (VAT)</b>	Does not apply	Does not apply
<b>Insurance Premium Tax</b>	Included in the premium at 6%	Included in the premium at 6%
<b>National Insurance Contributions (NIC)</b>	Applies to the total BIK value paid for by the employer, at 13.8%	Applies to the total BIK value paid for by the employer, at 13.8%
<b>Income Tax</b>	Applies to the BIK value, at the employee's highest marginal rate	Applies to the BIK value, at the employee's highest marginal rate
<b>Corporation Tax (CT)</b>	Applies to Total Taxable Profits as reduced by BIK and NIC paid for by the company at the company's relevant rate	Applies to Total Taxable Profits as reduced by BIK and NIC paid for by the company at the company's relevant rate
<b>Benefit in Kind (BIK) calculated as:</b>	Premium paid for by the employer less amounts paid for by the employee	Premium paid for by the employer less amounts paid for by the employee

**Taxation examples**

Please consider the following as illustrations only of the overall cost to a company of providing their employees with a healthcare benefit, including the potential saving in corporation tax after deducting from profit as a business expense. All tax rates are the normal main rates as at April 2013. The Government may announce a change in these rates.

**Private Medical Insurance (PMI)**

Mr Jones is a manager who earns £45,000 a year and pays tax at 40%. He is provided with a company funded private medical insurance scheme that costs his employer £1,060 a year, inclusive of IPT. The information below shows the taxation cost and benefit effects for both Mr Jones and his employer.

	<b>Amount due</b>	<b>Calculated as</b>
<b>Cost to Mr Jones</b>		
Income Tax (annual amount)	£424.00	40% of cost to employer (BIK value)
<b>Income Tax – monthly amount</b>	<b>£35.33</b>	
<b>Total cost of providing PMI</b>		
Net premium	£1,000.00	
Insurance Premium Tax	£60.00	6% of net premium
Total premium due to insurer (BIK value)	£1,060.00	
Cost of Class 1A NIC	£146.28	13.8% of cost to employer
Cost to employer before CT saving	£1,206.28	
<b>Less: Corporation Tax saved</b>	<b>(£277.44)</b>	23% of gross premium plus NIC paid
<b>Net cost to employer</b>	<b>£928.84</b>	

## Health Cash Plan

Smith & Sons provide all of their employees with a company paid health cash plan costing £2 per employee per week, or £104 per year. The information below shows the usual taxation cost and benefit effects for both the employer and its employees.

Total cost of providing the Health Cash Plan	Amount due	Calculated as
Net premium	£98.11	
Insurance Premium Tax	£5.89	6% of net premium
Total premium due to insurer (Benefit in Kind value)	£104	
Cost of Class 1A NIC	£14.35	13.8% of cost to employer
Cost to employer before CT saving	£118.35	
<b>Less:</b> Corporation Tax saved	(£27.22)	23% of gross premium plus NIC paid
<b>Net cost to employer (per employee)</b>	<b>£91.13</b>	
<b>Cost to basic rate taxpayer</b>		
Income Tax (annual amount)	£20.80	20% of BIK value
<b>Income Tax - monthly amount</b>	<b>£1.73</b>	
<b>Cost to higher rate taxpayer</b>		
Income Tax (annual amount)	£41.60	40% of BIK value
<b>Income Tax – monthly amount</b>	<b>£3.47</b>	
<b>Cost to additional rate taxpayer</b>		
Income Tax (annual amount)	£46.80	45% of BIK value
<b>Income Tax – monthly amount</b>	<b>£3.90</b>	

This communication is directed at commercial customers only and is not aimed at consumers. Please note that these examples are for illustrative purposes only. They are not intended to constitute tax advice, but are a representation of current legal provisions. For specific advice on how this affects your company, you should speak to your Tax Advisor or your local HM Revenue and Customs office.

Further information on tax rates and how this affects you can be found at:

[www.hmrc.gov.uk](http://www.hmrc.gov.uk)

