

Solicitors Advisory Service News

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Welcome to the Autumn edition of our newsletter. The articles in the newsletter are chosen by senior members of the legal services team on the issues we feel that are most relevant to the profession at the moment. My article on incorporation as a limited company shows the tax advantages to be gained. Stuart Littler considers the potential of LDP's and ABS's.

Mike Swift our Director of Forensic Services and a successful Mediator details our mediation service.

Peter Lane, our Director of Consultancy Services writes an in-depth review of Practice Standards Unit monitoring visits.

Finally our tax department provides useful tax updates on changes you may not be aware of.

We act for over 250 practices throughout England and Wales and provide a proactive service dedicated to the legal sector. If you would like any information about our services please contact me on my direct line **01606 721311** or look at our website www.servicesforsolicitors.co.uk.

Yvonne Wood FCA, Managing Director

THE TAX EFFICIENCY OF INCORPORATION AS A LIMITED COMPANY

I have spoken to many firms about incorporation and given several lectures on the subject over the years since the late 1990's and indeed have been involved in the incorporation of many practices, but I am still amazed that the majority of high street practices trade as either a traditional partnership or an LLP. So I thought another article was called for.

The taxation benefits of incorporation as a limited company arise due to savings of National Insurance and Income Tax. These savings do not arise if you incorporate as an LLP, as an LLP is taxed in the same way as a traditional partnership.

An example may whet your appetite to read more: A practice with 3 partners earning £160,000 each would pay c£187,500 in tax and national insurance as a partnership. However, in a limited company for the next 6 years (assuming profits remain constant) the overall tax paid annually (corporate and personal) would be c£112,300 a saving of c£75,200 per annum which over the 6 years would give total tax savings for the practice of £451,200.

So, why isn't everyone doing it and how is it achieved? Why everyone isn't doing it is one of life's great mysteries and it is a topic that is often discussed within Bennett Brooks. We put it down to several factors, ignorance, lack of proactive advice from accountants, a reluctance to change from a traditional partnership constitution within the profession and a general disbelief that it cannot possibly be true. We have many practices that have incorporated, the first of which was in 2004 and many have enjoyed significant tax savings such as those described above for 5 or 6 years. These savings are achieved by selling the Goodwill of the partnership to the limited company, which is valued by taking a multiple of the "super profits" of the practice. Super profits are those profits that the practice generates over and above the amount required to remunerate the partners for the work they do within the practice, and after taking

account of any other commercial costs that are not charged to the partnership accounts. The Goodwill that is created becomes a loan within the limited company accounts, together with the capital accounts transferred from the partnership. The partners (now shareholders and directors) gradually withdraw that loan over a period of time (usually between 6 and 7 years) to enable their personal income (salary and dividends) to stay within the basic rate band for tax purposes. Capital Gains tax is paid on the Goodwill, usually at a 10% tax rate, if you are able to take advantage of Entrepreneurs' relief. The CGT is payable on 31st January in the year following the end of the tax year in which the gain was made. So, for practices incorporating before 5th April 2010, the tax would be paid on 31st January 2011.

Once the directors' loan accounts have been repaid in full, all future drawings will have to be taken as additional dividends and therefore higher rates of personal tax will become payable from that date. However, dividends are not subject to National Insurance contributions and therefore future savings will be c £3,300 per shareholder, in the example used above.

These tax savings are particularly relevant at the moment as many firms will have partners whose profit share exceeds £100,000, therefore they will lose their personal allowance from 6th April 2010 on the basis of a £1 reduction for every £2 of taxable income in excess of £100,000. Those whose taxable income exceeds £150,000 per annum will pay tax at 50% on all taxable income in excess of £150,000.

Many firms have been concerned about whether HMRC are likely to challenge the conversion and the valuation put on Goodwill. We have had a couple of valuations fall under a general tax enquiry and none have given rise to any changes to the value or to an increase in the amount of Capital Gains Tax payable.

The process of incorporation is straight forward, but it is essential to take advice about the timing of incorporation. We offer

an incorporation package that costs in the region of £1,250 to £1,750 to take you through the process from start to finish including the valuation of Goodwill and recognition by the Solicitors Regulation Authority.

We always advise practices to have a shareholders' agreement which covers all the areas previously covered in the partnership agreement and indeed this usually presents a good time to give the original partnership agreement a good "airing" particularly addressing how any Goodwill remaining in the limited company balance sheet would be dealt with on "exiting" the practice.

Tax savings are not the only consideration when looking at the structure of the practice, but the savings to be made are a compelling argument and generally tip the scales when compared to LLPs.

Yvonne Wood FCA, Managing Director
Bennett Brooks & Co Ltd

UPDATE ON ALTERNATIVE BUSINESS STRUCTURE & WHY WAIT UNTIL 2011?

Legal Disciplinary Practices (LDP's) have been with us now for over six months, yet do not seem to have caused much of a stir over that period with only a few hundred having been set-up. LDP's are the fore runner of Alternative Business Structures (ABS's) which are expected to come into force sometime between 2011 and 2012. ABS's will allow lawyers to form multidisciplinary practices offering legal services in conjunction with non-legal services. They will also allow non-lawyers, including commercial organisations, to own firms that provide legal services. Many believe that firms are not considering LDP's as ABS will offer them the more preferred vehicle in order for them to strive for future success.

The SRA are currently analysing the responses received on their consultation paper in conjunction with LSB's discussion papers which is part of the process of establishing

a regulatory framework which will lead the way to the introduction of the ABS.

The outlook by many on the introduction of ABS is focused purely on the threat of increased competition by parties who have more funds and economies of scale to provide a cheaper and more widely available service to the public. However this also presents an opportunity with a greater access to finance from investors who previously have not been an option to practices. This can also serve to help firms to focus on what they are trying to achieve, to identify their strengths and to deal with their weaknesses in order to strive for future success.

Legal firms have between two and three years before ABS's become a reality, which is not long in order to start this process and to implement the changes in order to be ready for the opening up of the legal services market. LDP's provide a vehicle to recruit the required management personnel and skills from outside the legal sector to help the firm to strive towards their path for the future.

Firms can look upon the future changes not only as an opportunity for future growth or to gain market share but also increased opportunities for succession planning for the partners.

If legal firms leave it until 2011 to consider how ABS will affect them, then this may be too late, whether it's to identify potential merger/acquisition opportunities within the existing legal sector so to consolidate or protect their position, or to identify external investment opportunities, then you need to be sowing the seeds now, as the introduction of ABS is expected to be a far cry from the under-whelming introduction of LDP's.

Even opening the channels of communication between interested parties at this early stage can start the process towards achieving the firm's strategy, whether it be to grow or strengthen your position through mergers, to achieve a require succession plan, or to take advantage of the investment opportunities of ABS.

Bennett Brooks has instigated and project managed mergers/acquisitions of legal practices for many years, as well as having contacts within the banking and commercial fraternity that can provide opportunities for firms to take advantage of the changing times ahead. With a client base of over 250 legal practices, we are ideally situated to assist in you achieving your future plans, so contact us on 0845 330 3200 if you would like to discuss this further.

Stuart Littler ACA, Associate Director

BENNETT BROOKS MEDIATION SERVICE

We are now able to add mediation to the services we provide.

What is Mediation?

Mediation is a form of alternative dispute resolution which can be used at any stage of the dispute process to help reach a settlement without a legal battle or having to go to Court.

Is Mediation relevant to your dispute?

If you or your clients agree with any of the following statements, your situation will be suitable for mediation:

- I would prefer to reach an agreement rather than litigate.
- I may want to continue in business in the future with the other party.
- Confidentiality is important.
- I am concerned about costs rising.
- I want an end to this situation as soon as possible.
- I would prefer an informal process.

What happens at Mediation?

1. The parties agree which Mediator to appoint, they are free to nominate the Mediator of their choice. The Mediator will contact the parties and check what arrangements they have made for the date, time and venue of the mediation. The parties will prepare for the day and send a (small) mediation bundle including position statements to the mediator. The confidential position statements set out the parties' views on the case and provide useful background information for the Mediator.
2. Most Mediations start with a joint meeting convened by the Mediator with all parties present. After a brief introduction from the Mediator each side is given the opportunity to make an opening statement. This is made without interruption or cross examination from any other party. It is a valuable and unique opportunity for a party to tell the other side directly exactly how the dispute has affected them, why they are in dispute and what they want to achieve from the mediation.
3. After the opening meeting the parties separate into their private rooms and the Mediator will join one party then the other, shuttling between them as necessary. The Mediator will explore what the parties really want from the dispute and examine how they can get that. The Mediator will use his/her training and professionalism in helping the parties to create a solution acceptable to everyone. These meetings are confidential. The Mediator will not disclose anything said to him/her to the other party unless expressly permitted to do so. This ensures the parties can engage in frank and open discussions with the Mediator.

4. The aim of the process is, of course, to reach a settlement which all parties can accept. When that has been done, the lawyers will draft the agreement which the parties then sign. Only when the agreement has been signed, does it become binding.

What advantages are there in using mediation?

Mediation offers a number of advantages over litigation and arbitration.

For example:-

- The parties have more control over the outcome.
- The costs are a fraction of the costs of arbitration or litigation.
- It is confidential.
- There need not necessarily be a winner and a loser.
- It is quicker.
- The resolution of disputes can take account not just of the party's legal rights but also their wider interests, which in many ways may be similar.
- It is a non-binding process until such time when the parties agree a settlement.
- The parties can gain a better understanding of one another's motivation, concerns and abilities to help one another in their difficulties rather than 'fight' one another.
- Ongoing good working relationships can be maintained or restored. This can be

particularly valuable where long running contracts and serial contracts are involved.

What is the cost of mediation?

The table below provides a general guide for how much a Mediation will cost. However in certain cases, costs may differ to those in the table below, depending on how complicated the dispute is, the value of the dispute, how many parties are involved, the amount of preparation time required, and the Mediator's expenses if any, in certain cases costs can be negotiated.

The parties will share the cost of the Mediator whose basis of charge will be known and agreed before the Mediation commences, so rest assured there will not be any hidden costs. Apart from the Mediator's charges and the parties giving up their own time there should be little additional costs, unless the parties want to bring in their own specialist advisers. The fee is usually payable in advance of the mediation.

Michael Swift FCA MAE QDR MCI Arb, our director of forensic services, is a qualified mediator and a panel member of the Association of Northern Mediators. He is a successful mediator and enjoys a success rate of over 90%.

If you think we could assist you in settling an ongoing dispute, or if you require any further information on Mediation, please contact Michael on **0151 334 3157** or michael.swift@bennettbrooks.co.uk

Costs Guide

Value of dispute	Fees per party	Duration hours	Extra hours per party
£5,000 or less - Small Claim	£100	1	£60.00
£5,000 or less - Small Claim	£200	2	£60.00
£5,000 to £15,000 - Fast Track	£300	3	£85.00
£15,000 - £50,000 - Multi Track	£425	4	£95.00
£15,000 - £50,000 - Multi Track	£850	8	£95.00
£50,000 - £250,000	£950	8	£130.00
£250,000+	£1,300	8	£175.00

SOLICITORS REGULATION AUTHORITY – PRACTICE STANDARDS UNIT – MONITORING VISITS

Practice Standards Unit (PSU) visits

There are two main types of visit by the Solicitors Regulation Authority (SRA). Investigative visits are targeted and intelligence driven, and occur on little or no notice. The most common visits are the PSU compliance monitoring visits, the subject of this article, for which about five weeks notice is given. The visits last a day for very small firms, and two days or more for larger firms.

The PSU intend to visit all firms, but an increased level of complaints reaching the Legal Complaints Service can directly lead to a visit. One firm wrote to the SRA on an unrelated matter on letterhead that stated “Regulated by the Law Society”, and they received a reply giving notice of a visit – whoops!

On this point, under Rule 7.07 of the Solicitors Code of Conduct the correct statement required on a letterhead (including fax header), e-mail footer or website is “Regulated by the Solicitors Regulation Authority” and the name under which it is recognised by the SRA and the number allocated to it by the SRA. (Subsequent references to a Rule relate to a Rule under the Solicitors Code of Conduct, unless otherwise stated).

Information and documents to be provided in advance of a visit

The letter from the PSU announcing a visit encloses a form for completion and return within 15 days. Amongst other things this seeks the following information/documents:

- A list of partners/solicitors/other fee earners (including location, work types and number of open matters for each);
- Specimen client care letter/terms of business for the firm’s six main work types;
- Complaints procedure (sent to clients who request it);
- A completed Investment Business Questionnaire (which includes a question about “insurance mediation” – see below);
- The latest bank reconciliation statements for all client accounts (including designated deposit accounts);
- The names of client care partner, Financial Services Authority (FSA) compliance partner, and money laundering reporting officer;
- An explanation of how the firm complies with the management training requirements (Rule 5.02);
- The firm’s work types (by code) – and, per work type, the approximate number of open files and percentages of the firm’s overall work (by files and by fees);
- Methods of funding of fees (by work type) – private, legal aid, conditional fee agreements, legal expenses insurance, trade union, etc; and

- Any introduction arrangements (Rule 9) – including the name(s) of referrers, work types, whether a fee is paid and the percentage of the firm’s fee income per source in last six months.

Documents to be made available on the day of the visit

The letter announcing the visit requests that the following are made available:

- A list of files – currently open and those closed within last three months, including opening dates, client and office account balances and the fee earners responsible;
- Access to those (and potentially other) files and to client account ledgers;
- Office account reconciliation statements for each of the last three months;
- Bank/building society statements for all client accounts for each of the last three months.

SRA methodology

In advance of the visit the SRA check their own records for the firm (including complaints and disciplinary records), the FSA register, the client care documentation provided to them and the firm’s website. During the visit they gather information through interviews, checking case files and ledgers for those files, accounts data (including client and office account reconciliations), complaints files and the firm’s office manual. At the end of the visit, the SRA provide a report summarising any breaches and indicating the action required to address those breaches, the response being requested within 21 days.

Common non compliance areas

The most common non compliance issues are:

- Introduction/referral arrangements;
- Insurance mediation activities;
- Costs information;
- Complaints handling;
- Accounts rules issues;
- Management issues: and
- Equality/diversity policy.

These issues are dealt with below, including some hints as regards putting the firm’s house in order.

Introduction/referral arrangements

One firm was informed that as it did not pay for any referrals, the duration of the visit would be halved. This was a slight exaggeration, but it is indicative of the SRA’s priorities. A careful reading of Rule 9 is recommended.

Where the firm pays for introductions of work, Rule 9.02 requires:

- A written agreement with the introducer (including a proviso that the introducer cannot constrain the firm’s professional judgment or compromise the firm’s duties under the Rules;

- The introducer to undertake to comply with Rule 9 and Rule 7 (publicity) – including no cold-calling or “clip-boarding” – i.e. no personal approach;
- The introducer to inform the client of the existence of the financial arrangement and the amount of the referral payment;
- The firm to take reasonable steps to remedy any breach of the rules (and to terminate the arrangement if not remedied);
- The firm to check that the introducer is complying – for example checking a sample of the marketing material and random checks (e.g. asking the client what information was given, and whether they received a personal approach);
- “Before accepting instructions”, the firm to inform the client in writing of the fact of the financial arrangement with the introducer, the amount of the payment, that advice will be independent and that information disclosed to the firm will not be disclosed to the introducer unless the client consents.

The Law Society has provided a checklist – see appendix B to *Your Clients Your Business* (on the Law Society website). See also “Questions and Answers on Referral Fees” (Law Society website – 21/12/05). Under the Compensation Act 2006 introducers of personal injury work are now obliged to register with the Claims Management Regulation Monitoring and Compliance Unit at the Ministry of Justice (MOJ), and the register can be checked on the MOJ website. The SRA “expect” firms to use only introducers who are properly regulated as above.

Insurance mediation

The Investment Business Questionnaire (to be completed and returned in advance of the SRA visit) includes a question about “insurance mediation”, i.e. arranging insurance policies such as “after the event” in personal injury matters or defective title insurance for property. Some firms incorrectly answer “no” to the insurance mediation question when the firm’s practising certificates are renewed, the impact of which is that the firm’s name is removed from the FSA’s “exempt professional register” (EPF). If the firm then arranges insurance whilst unregistered, apparently it is breaking the law.

The firm’s presence on the FSA register can be checked on the FSA website – remember to look under “EPF” and not “firms”, as this can lead to panic when failing to find the entry. If a firm wishes to re-register, it should request an application form from the SRA.

Costs information

Rule 2.03 requires the client to be given “the best information possible about the likely overall cost of a matter” both at the outset and (when appropriate) as the matter progresses. This estimate can be by reference to a range of figures. This information must be given in writing unless there is good reason for not doing so, and the information must include:

- The basis/terms of charging – based on time spent, fixed fee, etc;
- If charging rates are to be increased;
- The likely payments that the firm or the client may need to make to others;
- Discussing how client will pay – including whether the client is eligible and should apply for legal aid, and whether their own costs might be covered by insurance (e.g. household) or paid by another (e.g. a trade union);
- The circumstances where the firm would be entitled to exercise a lien for unpaid costs;
- Any potential liability for the other party’s costs, and whether that liability might be covered by insurance – existing or to be purchased; and
- If the firm is to share its fees with a charity under Rule 8.01(k), the name of that charity.

This Rule also requires that the question of cost/benefit should be discussed with the client. Although there is no longer an absolute requirement for six monthly costs updates, during SRA visits they urge firms to update the client regarding costs at six monthly intervals.

It is suggested that firms check their client care/terms of business documentation for compliance, and make appropriate amendments. Two documents on the Law Society website are useful for this exercise, namely “Your Clients Your Business (referred to above), and specimen client care letters at www.lawsociety.org.uk/productsandservices/practicenotes/clientcareletters.

Complaints handling

Rule 2.05 requires:

- The firm to have a written complaints procedure; and complaints to be handled promptly, fairly and effectively;
- The client to be told at the outset in writing of their entitlement to complain, and to whom to complain;
- The client to be given copy of the complaints procedure on request, which should include the postal and web address of the Legal Complaints Service;
- When a complaint is made, the complainant to be told in writing how the complaint is to be handled and timescales for the initial and/or substantive response; and
- The client must not be charged for handling a complaint.

There is an example in of a complaints procedure at Your Clients Your Business on the Law Society website.

Accounts rules issues

The most frequent accounts issues that arise were detailed in our Autumn 2008 Newsletter but in summary are:

- "Secret profits".
- Bank reconciliations.
- Static client account balances.
- Client to office account transfers – the 14 day rule.
- Client monies must be banked before the end of the next working day after receipt.
- Commission – where such funds are received they must be fully disclosed to the client.
- Central register of investment business.

Management issues

There are numerous requirements under Rule 5, and it is preferable for the relevant policies/procedures to be documented (e.g. in an office manual). The main issues which concern the SRA are as follows:

- Supervision over all staff, the supervision and direction of client matters and the quality of work checked reasonably regularly by competent persons within the firm.
- Training of personnel to maintain an appropriate level of competence.
- Having someone at each office "qualified to supervise" that office – namely a solicitor or Registered European Lawyer qualified for three years (in the last ten years) having had at least 12 hours management skills training since qualification.
- Compliance with anti money laundering legislation, including appointing a money laundering reporting officer, training of "relevant employees", "customer due diligence" on a "risk sensitive" basis – in particular obtaining identity evidence, and internal and external reporting of suspicious transactions.
- Regulatory requirements, including professional indemnity insurance and delivery of an accountant's report.

- Identification of conflicts of interest and action taken when a potential conflict is identified.
- Undertakings control – including who is authorised to give what types of undertaking and ensuring that undertakings are discharged.
- Safekeeping of documents and assets – including deeds, wills and money.
- Financial control – budgets, analysing expenditure and monitoring cash flow.
- Business continuity/disaster recovery – a written plan should be prepared and communicated. It should cover destruction of the firm's building, long term partner absence, loss of information technology data and loss of a major client or introducer.
- Management of risk, i.e. where there are factors making it more likely than normal that the a complaint or professional negligence claim would arise – procedures for identification and internal reporting at the outset of high risk cases, reporting cases where such a risk has increased during a matter and reporting cases where the outcome is worse than anticipated.

Equality and diversity

This aspect is covered by Rule 6, the main requirements being:

- To have a policy, to take steps to ensure that personnel are aware of it and to make it available to the SRA or the client on request.
- Not to discriminate (as regards employees, clients and counsel/experts) on the grounds of race, gender, sexual orientation, religion or belief, age or disability.
- To make reasonable adjustments so that disabled employees/clients are not at a disadvantage as compared with those who are not disabled.

As the Law Society wish firms to consider the issue and prepare their own policy, they no longer have a precedent policy, albeit examples of such policies are widely available. Alternatively a firm might simply state that it adopts Rule 6.

Conclusion

The above information should enable a firm to fully prepare for a monitoring visit from the SRA. However, if a firm is under-prepared when a visit is announced, the highest priorities would be to ensure that any referral arrangements are watertight, to understand why static client account balances are as such and to ensure that there are no "secret profits" deriving from telegraphic transfer fees.

Peter Lane DMS, Solicitor and management consultant
Bennett Brooks, Director of Consultancy Services.

TAX UPDATE

CHANGE IN INTEREST RULES

From the end of September 2009 the rate of interest chargeable and payable by HMRC is linked to the Bank of England (BoE) rate. The rates will be set at the BoE rate plus 2.5% on any tax overdue, and at -1% for any repayments of tax due, subject to a minimum 0.5%. At the moment the rate is 0% so if the HMRC owes you money, press for an early refund because you'll get a better rate in your bank!

TELEPHONE LEVY

Broadband tax - it was announced recently that a new broadband tax will be levied on millions of homes to pay for the super- fast Internet access across Britain. The tax will amount to an extra £6 a year per phone line from 2010. The plan is to add this to your regular phone bill.

If you find this unacceptable and do not want to pay this then there is an exemption for fibre optic land lines. These are typically supplied by media companies like Virgin.

PAYE AND NIC LATE PAYMENT INTEREST

From 6 April 2010, HMRC will implement late payment interest surcharges on employers who do not pay their PAYE and NIC on time. Interest has previously only been calculated on amounts outstanding after 19 April, however where HMRC identifies an employer as late making their monthly/quarterly remittance, interest will be charged automatically.

FURNISHED HOLIDAY LETS -

TAKE A HOLIDAY FROM CGT BEFORE APRIL 6 2010

From April 6 2010 you might have to pay more tax at 18% when you sell your furnished holiday letting property (FHL). But if you act now you can reduce this to 10% by using entrepreneurs relief (ER).

Advantages

UK or EU furnished holiday letting properties (FHL) owned by individuals or through a company are currently treated by HMRC as a fully fledged trade rather than just rental income. This brings some

important benefits for both income tax and Capital Gains Tax (CGT). The trading status allows CGT on the disposal of such properties to be reduced to just 10% by ER.

Example, Martin owns a FHL which he bought in 1990 for £100,000. It is now worth £220,000. If he sells the property, the gain before any exemptions will be £120,000. The maximum CGT on this is at 18%, ie £21,600, but with ER it could be cut to £12,000.

What's new?

A shock change in this year's Budget means that from April 2010 FHLs will lose their trading status and the tax benefits that go with it. So unless you sell your FHL by then you will lose out on the CGT benefits. But there are other ways to get this tax break without giving up all your interest in the FHL.

Option 1- Keep it in the Family

If you give the property (FHL) to, for example, your son, daughter, or unmarried partner, HMRC will treat the transaction as if you sold it on the open market. That means providing you make the gift by April 2010 you will be able to claim the beneficial CGT treatment.

Trap. As the gift will be treated as a sale, the Taxman will calculate CGT as if you received the market price for the property. So in trying to save tax you may have created liability where none previously existed. However, as FHLs are trading assets you can make use of a special CGT election, known as a 'holdover election'. This will reduce the tax charge to nil by deferring the gain until the property is actually sold.

The issue with this is that when you give away the asset you will be giving away the right to future income from it.

Option 2- it's still a gift

If children or unmarried partners are in short supply, all is not lost. As an alternative you can make a gift of the property to yourself by transferring it into a discretionary trust set up with you, as one of the beneficiaries, so you could continue to get income from the FHL. This arrangement would be treated as a sale by HMRC and so you can still claim ER and be able to use the holdover election.

PAYE SETTLEMENT AGREEMENTS

The taxation of expenses and benefits is one of the most complex areas that employers have to deal with. If organisations do not want to dilute the value of an employer provided benefit by passing on the tax charge to employees they can agree with HMRC that the employer will pick up the tax through a PAYE Settlement Agreement (PSA). As the employer is picking up the employees debt by paying their tax bill, employers NIC only is due on the value of the items included in the PSA. Where HMRC agree to a PSA the PAYE and NIC liability is paid over in a single payment and no P11D or P9D are required. The types of benefit that can be included in a PSA are:

- Minor Items – provision of a gift to an employee on marriage for example.
- Irregular Items – provision of occasional taxis home for late night working where the provision does not meet the criteria for the late-night transport tax exemption.
- Impractical Items – shared taxis or drinks provided to employees on completion of a project.

The above list is not exhaustive just an example of what can be covered.

Items that cannot be covered by a PSA are:

- Cash payments – including salary, bonuses.
- High value benefits – company cars, living accommodation.
- Round sum allowances.
- Shares.

To apply for a PSA you write to your tax office explaining that you want a PSA and describing the expenses and benefits you would like covered. If HMRC agree the application it will authorise the PSA. You can apply for a PSA at any time. The completed Form P626 needs to be submitted by 6 July and is not set in stone for future years, only for the tax year that it was applied for and only for the expenses and benefits requested.